

First California Financial Group, Inc.  
Form S-1/A  
December 08, 2009  
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As filed with the Securities and Exchange Commission on December 8, 2009

Registration No. 333-160816

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

Washington, D.C. 20549

**AMENDMENT NO. 1**  
**TO**  
**FORM S-1**  
**REGISTRATION STATEMENT**  
*UNDER*  
***THE SECURITIES ACT OF 1933***

**FIRST CALIFORNIA FINANCIAL GROUP, INC.**

(Exact Name of Registrant as Specified in Its Charter)

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<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>6022</b> (Primary Standard Industrial Classification Code Number)	<b>38-3737811</b> (I.R.S. Employer Identification No.)
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3027 Townsgate Road, Suite 300  
Westlake Village, California 91361  
(805) 322-9655

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**Romolo Santarosa**

**Chief Financial Officer**

**First California Financial Group, Inc.**

**3027 Townsgate Road, Suite 300**

**Westlake Village, California 91361**

**(805) 322-9655**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

*Copies to:*

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Approximate date of commencement of proposed sale to the public: From time to time after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. "

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

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If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

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

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

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

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**SUBJECT TO COMPLETION, DATED DECEMBER 8, 2009**

**The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.**

**PRELIMINARY PROSPECTUS**

**7,500,000 Shares**

**Common Stock**

We are offering 7,500,000 shares of our common stock, par value \$0.01 per share. Our common stock is traded on the NASDAQ Global Market under the symbol FCAL. On December 4, 2009, the last reported sale price of our common stock on the NASDAQ Global Market was \$3.58 per share.

*These shares of common stock are not savings accounts, deposits, or other obligations of our bank subsidiary or any of our non-bank subsidiaries and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.*

**Investing in our common stock involves risks. See Risk Factors beginning on page 5 to read about factors you should consider before buying our common stock.**

**Neither the Securities and Exchange Commission nor any state securities regulator has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

	<b>Per Share</b>	<b>Total</b>
Public offering price	\$	\$
Underwriting discounts and commissions	\$	\$
Proceeds to First California Financial Group, Inc. (before expenses)	\$	\$

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Keefe, Bruyette & Woods also may purchase up to an additional 1,125,000 shares of our common stock within 30 days of the date of this prospectus to cover over-allotments, if any.

Keefe, Bruyette & Woods expects to deliver the common stock in book-entry form only, through the facilities of The Depository Trust Company, against payment on or about \_\_\_\_\_, 2009.

## **Keefe, Bruyette & Woods**

The date of this prospectus is \_\_\_\_\_, 2009.

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus contains certain forward-looking statements about the financial condition, results of operations and business of the Company. These statements may include statements regarding the projected performance of the Company for the period following the completion of the offering. You can find many of these statements by looking for words such as believes, expects, anticipates, estimates, intends, will, plan, or similar words or expressions. These forward-looking statements involve substantial risks and uncertainties. Some of the factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, but are not limited to, the following possibilities:

revenues are lower than expected;

credit quality deterioration which could cause an increase in the provision for credit losses;

competitive pressure among depository institutions increases significantly;

changes in consumer spending, borrowings and savings habits;

our ability to successfully integrate acquired entities or to achieve expected synergies and operating efficiencies within expected time-frames or at all;

technological changes;

the cost of additional capital is more than expected;

a change in the interest rate environment reduces interest margins;

asset/liability repricing risks and liquidity risks;

general economic conditions, particularly those affecting real estate values, either nationally or in the market areas in which we do or anticipate doing business, are less favorable than expected;

a slowdown in construction activity;

the effects of and changes in monetary and fiscal policies and laws, including the interest rate policies of the Board of Governors of the Federal Reserve, or the Federal Reserve Board or FRB;

recent volatility in the credit or equity markets and its effect on the general economy;

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demand for the products or services of First California and the Bank, as well as their ability to attract and retain qualified people;

the costs and effects of legal, accounting and regulatory developments; and

regulatory approvals for acquisitions cannot be obtained on the terms expected or on the anticipated schedule.

Because such statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied by such statements. You are cautioned not to place undue reliance on such statements, which speak only as of the date of this prospectus.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Actual results of the Company may differ materially from those expressed in these forward-looking statements. Many of the factors that will determine these results and values are beyond our ability to control or predict. Accordingly, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

We urge investors to review carefully the section of this prospectus entitled *Risk Factors* in evaluating the forward-looking statements contained in this prospectus. Unless required by law, we do not undertake any obligation to release publicly any revisions to such forward-looking statements to reflect events or circumstances after the date of this prospectus or to reflect the occurrence of unanticipated events.

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**ABOUT THIS PROSPECTUS**

You should rely only on the information contained in this prospectus. We have not, and the underwriter has not, authorized any person to provide you with different or inconsistent information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriter is not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date of this prospectus, unless the information specifically indicates that another date applies. First California Financial Group, Inc.'s business, financial condition, results of operations and prospects may have changed since such dates.

Unless otherwise indicated or unless the context requires otherwise, all references in this prospectus to First California Financial Group, Inc.,

First California, the Company, we, us, our, or similar references, mean First California Financial Group, Inc. References to First California or the Bank mean our wholly owned banking subsidiary. References to the mergers mean the merger of National Mercantile Bancorp with and into First California and the merger of FCB Bancorp with and into First California, collectively.

**WHERE YOU CAN FIND MORE INFORMATION**

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission, or the SEC. You may read and copy any document we file at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The internet address of the SEC's website is [www.sec.gov](http://www.sec.gov). Such reports and other information concerning First California can also be inspected at the offices of First California at 3027 Townsgate Road, Suite 300, Westlake Village, California 91361 and can also be retrieved by accessing our website ([www.fcalgroup.com](http://www.fcalgroup.com)). Information on our website is not part of this prospectus.

This prospectus, which is a part of a registration statement on Form S-1 that we have filed with the SEC under the Securities Act of 1933, as amended, or the Securities Act, omits certain information set forth in the registration statement. Accordingly, for further information, you should refer to the registration statement and its exhibits on file with the SEC. Furthermore, statements contained in this prospectus concerning any document filed as an exhibit are not necessarily complete and, in each instance, we refer you to the copy of such document filed as an exhibit to the registration statement.

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**PROSPECTUS SUMMARY**

*This summary highlights selected information contained elsewhere in this prospectus and may not contain all the information that you need to consider in making your investment decision. You should carefully read this entire prospectus, as well as the information to which we refer you, before deciding whether to invest in the common stock. You should pay special attention to the Risk Factors section of this prospectus to determine whether an investment in the common stock is appropriate for you.*

**About First California Financial Group, Inc.**

First California is a bank holding company registered under the Bank Holding Company Act of 1956, as amended. First California's primary function is to coordinate the general policies and activities of its bank subsidiary, First California Bank, as well as to consider from time to time other legally available investment opportunities.

First California was incorporated under the laws of the State of Delaware on June 7, 2006. The Company was formed as a wholly owned subsidiary of National Mercantile Bancorp, a California corporation, or National Mercantile, for the purposes of facilitating the merger of National Mercantile and FCB Bancorp, a California corporation, or FCB. On March 12, 2007, National Mercantile merged with and into First California, and immediately thereafter, FCB merged with and into First California. As a result of the mergers, the separate corporate existence of National Mercantile and FCB ceased, and First California succeeded, and assumed all the rights and obligations of, National Mercantile, whose principal assets were the capital stock of two bank subsidiaries, Mercantile National Bank, or Mercantile, and South Bay Bank, N.A., or South Bay, and the rights and obligations of FCB, whose principal assets were the capital stock of First California Bank. On June 18, 2007, First California integrated its bank subsidiaries into First California Bank.

First California Bank is a full-service commercial bank headquartered in Westlake Village, California. First California Bank is chartered under the laws of the State of California and is subject to supervision by the California Commissioner of Financial Institutions. The Federal Deposit Insurance Corporation, or FDIC, insures its deposits up to the maximum legal limit.

At September 30, 2009, we had total assets of \$1.5 billion, gross loans of \$940.9 million, deposits of \$1.1 billion, and shareholders' equity of \$161.1 million.

Our common stock is traded on the NASDAQ Global Market under the symbol FCAL. Our principal executive offices are located at 3027 Townsgate Road, Suite 300, Westlake Village, California 91361. Our telephone number is (805) 322-9655.

**Risk Factors**

An investment in our common stock involves certain risks. You should carefully consider the risks described under Risk Factors beginning on page 5 of this prospectus, as well as other information included in this prospectus, including our consolidated financial statements and the notes thereto, before making an investment decision.

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**The Offering**

*The following summary of the offering contains basic information about the offering and the common stock and is not intended to be complete. It does not contain all the information that is important to you. For a more complete understanding of the common stock, please refer to the section of this prospectus entitled Description of Capital Stock.*

<b>Issuer</b>	First California Financial Group, Inc.
<b>Common stock offered</b>	7,500,000 shares of common stock, par value \$0.01 per share.
<b>Over-allotment option</b>	We have granted the underwriter an option to purchase up to an additional 1,125,000 shares of common stock within 30 days of the date of this prospectus in order to cover over-allotments, if any.
<b>Common stock outstanding after this offering</b>	19,127,008 shares of common stock.(1)(2)
<b>Use of proceeds</b>	We intend to use the net proceeds of this offering for general corporate purposes, including funding working capital requirements, supporting growth of First California's banking business from internal growth and from possible acquisitions, and regulatory capital needs related to any such growth and acquisitions. We also may contribute some portion of the net proceeds to the capital of the Bank, which would use such amount for similar general corporate purposes.
<b>Market and trading symbol for the common stock</b>	Our common stock is listed and traded on the NASDAQ Global Market under the symbol FCAL.

(1) The number of shares of common stock outstanding immediately after the closing of this offering is based on 11,627,008 shares of common stock outstanding as of December 4, 2009.

(2) Unless otherwise indicated, the number of shares of common stock presented in this prospectus excludes:

1,125,000 shares of common stock issuable pursuant to the exercise of the underwriter's over-allotment option;

1,299,948 shares of common stock issuable under our stock compensation plans;

297,965 shares of common stock issuable upon the conversion of the Series A Preferred Stock; and

599,042 shares of common stock issuable upon the exercise of the warrant held by the U.S. Treasury. If this offering and/or any other qualified equity offerings that we may make prior to December 31, 2009 result in aggregate gross proceeds of at least \$25 million, the number of shares of common stock underlying the warrant then held by the U.S. Treasury will be reduced by 50% to 299,521 shares.



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The following tables set forth our consolidated statement of operations data for the nine months ended September 30, 2009 and 2008 and for the years ended December 31, 2008 and 2007 and our consolidated balance sheet and other data as of September 30, 2009 and as of December 31, 2008 and 2007.

The summary consolidated statement of operations data for the years ended December 31, 2008 and 2007, and the summary consolidated balance sheet data as of December 31, 2008 and 2007, have been derived from our audited consolidated financial statements included elsewhere in this prospectus.

The summary consolidated statement of operations data for the nine months ended September 30, 2009 and 2008, and the summary consolidated balance sheet data as of September 30, 2009, have been derived from our unaudited condensed consolidated financial statements included elsewhere in this prospectus. In the opinion of management, the unaudited condensed consolidated financial information for the interim periods presented include all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the information set forth therein. Historical results are not necessarily indicative of future results and the interim results are not necessarily indicative of our expected results for the full fiscal year.

You should read the following summary financial information in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our historical consolidated financial statements and the related notes for the fiscal year ended December 31, 2008 and for the fiscal quarter ended September 30, 2009 included elsewhere in this prospectus.

	For the Nine Months Ended September 30, 2009		For the Year Ended December 31, 2008	
	2008		2007	
	(Unaudited)			
	(Amounts and numbers in thousands except share and per share amounts)			
<b>Statement of Operations Data:</b>				
Interest Income	\$ 49,359	\$ 48,236	\$ 63,235	\$ 65,750
Interest Expense	15,396	17,290	22,453	25,506
Net Interest Income	33,963	30,946	40,782	40,244
Provision for Loan Losses	10,296	950	1,150	
Non-interest Income	7,585	3,989	5,381	8,047
Non-interest Expenses	34,947	25,409	35,105	37,045
Income (Loss) Before Provision for Income Taxes	(3,695)	8,576	9,908	11,246
Provision (Benefit) for Income Taxes	(1,898)	3,342	3,542	4,158
Net Income (Loss)	\$ (1,797)	\$ 5,234	\$ 6,366	\$ 7,088
Less Preferred Stock Dividend Declared	(819)			
Net Income (Loss) Available to Common Shareholders	\$ (2,616)	\$ 5,234	\$ 6,366	\$ 7,088
Basic Earnings (Loss) Per Common Share	\$ (0.23)	\$ 0.46	\$ 0.56	\$ 0.68
Diluted Earnings (Loss) Per Common Share	\$ (0.23)	\$ 0.45	\$ 0.54	\$ 0.66
<b>Weighted Average Common Shares</b>				
Basic	11,597,632	11,478,124	11,457,231	10,467,619
Diluted	11,597,632	11,754,050	11,844,049	10,731,694



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	As of September 30, 2009 (Unaudited)	As of December 31, 2008 2007	
(Amounts and numbers in thousands except ratios)			
<b>Balance Sheet Data:</b>			
Total Assets	\$ 1,469,628	\$ 1,178,045	\$ 1,108,842
Securities Available-for-Sale, at Fair Value	302,378	202,462	231,095
Loans Held-for-Sale		31,401	11,454
Loans, Net	928,714	780,373	738,351
Total Deposits	1,125,031	817,595	761,080
Federal Home Loan Bank Advances	104,000	122,000	123,901
Junior Subordinated Debentures	26,740	26,701	26,648
Total Shareholders' Equity	161,058	158,923	136,867
Equity-to-Assets Ratio(1)	10.96%	13.49%	12.34%
<b>Financial Performance:</b>			
Net Income (Loss) to Beginning Equity	(1.13)%	4.65%	15.73%
Net Income (Loss) to Average Equity (ROAE)	(1.50)%	4.59%	6.98%
Net Income (Loss) to Average Assets (ROAA)	(0.17)%	0.56%	0.75%
Net Interest Margin (TE)(2)	3.60%	4.08%	4.64%
Efficiency Ratio(3)	90.60%	73.45%	63.18%
<b>Credit Quality:</b>			
Allowance for Loan Losses	\$ 12,137	\$ 8,048	\$ 7,828
Allowance/Total Loans	1.29%	1.02%	1.05%
Total Non-Accrual Loans	\$ 39,330	\$ 8,475	\$ 5,720
Non-Accrual Loans/Average Loans	4.31%	1.08%	0.84%
Net Charge-offs	\$ 6,207	\$ 930	\$ 466
Net Charge-offs/Average Loans	0.91%	0.12%	0.07%
<b>Regulatory Capital Ratios</b>			
<b>For the Company:</b>			
Total Capital to Risk Weighted Assets	12.47%	16.62%	13.35%
Tier 1 Capital to Risk Weighted Assets	11.34%	15.70%	12.43%
Tier 1 Capital to Average Assets	8.81%	12.77%	10.42%
<b>For the Bank:</b>			
Total Capital to Risk Weighted Assets	11.62%	12.27%	11.98%
Tier 1 Capital to Risk Weighted Assets	10.48%	11.35%	11.05%
Tier 1 Capital to Average Assets	8.10%	9.26%	9.24%

(1) Total shareholders' equity divided by total assets.

(2) Net interest income (tax equivalent) divided by total average earning assets.

(3) Non-interest expense, excluding amortization of intangibles, divided by the sum of net interest income and non-interest income (excluding gains or losses from securities transactions).

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### **RISK FACTORS**

*An investment in our common stock involves certain risks. Before making an investment decision, you should read carefully and consider the risk factors below relating to this offering. You should also refer to other information contained in this prospectus, including our consolidated financial statements and the related notes. Additional risks and uncertainties not presently known to us at this time or that we currently deem immaterial may also materially and adversely affect our business and operations.*

#### **Risks Related to Recent Economic Conditions and Governmental Response Efforts**

*Our business has been and may continue to be adversely affected by current conditions in the financial markets and economic conditions generally.*

The global, U.S. and California economies are experiencing significantly reduced business activity and consumer spending as a result of, among other factors, disruptions in the capital and credit markets during the past year. Dramatic declines in the housing market during the past year, with falling home prices and increasing foreclosures and unemployment, have resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. A sustained weakness or weakening in business and economic conditions generally or specifically in the principal markets in which we do business could have one or more of the following adverse effects on our business:

a decrease in the demand for loans or other products and services offered by us;

a decrease in the value of our loans or other assets secured by consumer or commercial real estate;

a decrease to deposit balances due to overall reductions in the accounts of customers;

an impairment of certain intangible assets or investment securities;

a decreased ability to raise additional capital on terms acceptable to us or at all; or

an increase in the number of borrowers who become delinquent, file for protection under bankruptcy laws or default on their loans or other obligations to us. An increase in the number of delinquencies, bankruptcies or defaults could result in a higher level of nonperforming assets, net charge-offs and provision for credit losses, which would reduce our earnings.

Until conditions improve, we expect our business, financial condition and results of operations to be adversely affected.

***Recent and future legislation and regulatory initiatives to address current market and economic conditions may not achieve their intended objectives, including stabilizing the U.S. banking system or reviving the overall economy.***

Recent and future legislative and regulatory initiatives to address current market and economic conditions, such as the Emergency Economic Stabilization Act of 2008, or EESA, or the American Recovery and Reinvestment Act of 2009, or ARRA, may not achieve their intended objectives, including stabilizing the U.S. banking system or reviving the overall economy. EESA was enacted in October 2008 to restore confidence and stabilize the volatility in the U.S. banking system and to encourage financial institutions to increase their lending to customers and to each other. The U.S. Treasury and banking regulators have implemented, and likely will continue to implement, various other programs under this legislation to address capital and liquidity issues in the banking system, including the Troubled Asset Relief Program, or TARP, the Capital Purchase Program, or CPP, President Obama's Financial Stability Plan announced in February 2009, the ARRA and the FDIC's Temporary Liquidity Guaranty Program, or TLGP. There can be no assurance as to the actual impact that any of the recent, or future, legislative and regulatory initiatives will have on the financial markets and the overall economy. Any failure of these initiatives to help stabilize or improve the financial markets and the economy, and a continuation or worsening of current financial market and economic conditions could materially

and adversely affect our business, financial condition, results of operations, access to credit or the trading price of our common stock.

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### ***Current levels of market volatility are unprecedented.***

The capital and credit markets have been experiencing volatility and disruption for more than a year. The volatility and disruption has reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying financial strength. If current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to access capital and on our business, financial condition and results of operations.

### ***Additional requirements under our regulatory framework, especially those imposed under ARRA, EESA or other legislation intended to strengthen the U.S. financial system, could adversely affect us.***

Recent government efforts to strengthen the U.S. financial system, including the implementation of ARRA, EESA, the TLGP and special assessments imposed by the FDIC, subject participants to additional regulatory fees and requirements, including corporate governance requirements, executive compensation restrictions, restrictions on declaring or paying dividends, restrictions on share repurchases, limits on executive compensation tax deductions and prohibitions against golden parachute payments. These requirements, and any other requirements that may be subsequently imposed, may have a material and adverse affect on our business, financial condition, and results of operations.

### **Risks Related to Our Business**

#### ***Our growth presents certain risks, including a possible decline in credit quality or capital adequacy.***

The asset growth experienced by National Mercantile and FCB in the years prior to the mergers and by First California after the mergers presents certain risks. While we believe we have maintained good credit quality notwithstanding such growth, rapid growth is frequently associated with a decline in credit quality. Accordingly, continued asset growth could lead to a decline in credit quality in the future. In addition, continued asset growth could cause a decline in capital adequacy for regulatory purposes, which could in turn cause us to have to raise additional capital in the future to maintain or regain well capitalized status as defined under applicable banking regulations.

#### ***Our performance and growth are dependent on maintaining a high quality of service for our customers, and will be impaired by a decline in our quality of service.***

Our growth will be dependent on maintaining a high quality of service for customers of First California. As a result of the mergers and the corresponding growth, it may become increasingly difficult to maintain high service quality for our customers. This could cause a decline in our performance and growth with respect to net income, deposits, assets and other benchmarks.

#### ***The fair value of our investment securities can fluctuate due to market conditions out of our control.***

Our investment securities portfolio is comprised mainly of U.S. government agency mortgage-backed securities, U.S. government agency and private-label collateralized mortgage obligations and municipal securities. At September 30, 2009, gross unrealized losses on our investment portfolio were \$12.1 million. The majority of unrealized losses at September 30, 2009 were related to a type of mortgage-backed security also known as private-label collateralized mortgage obligations. As of September 30, 2009, the fair value of these securities were \$36.8 million, representing approximately 12% of our securities portfolio. We also own one pooled trust preferred security, rated triple-A at purchase, with an amortized cost basis of \$4.9 million and an unrealized loss of \$2.6 million at September 30, 2009. This unrealized loss is primarily caused by a severe disruption in the market for these securities.

Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. These factors include but are not limited to

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rating agency downgrades of the securities, defaults by the issuer or with respect to the underlying securities, changes in market interest rates and continued instability in the credit markets. Any of these mentioned factors could cause an other-than-temporary impairment in future periods and result in a realized loss.

*If borrowers and guarantors fail to perform as required by the terms of their loans, we will sustain losses.*

A significant source of risk for First California arises from the possibility that losses will be sustained if our borrowers and guarantors fail to perform in accordance with the terms of their loans and guaranties. This risk increases when the economy is weak. We have adopted underwriting and credit monitoring procedures and credit policies, including the establishment and review of the allowance for loan losses, that we believe are appropriate to minimize this risk by assessing the likelihood of nonperformance, tracking loan performance and diversifying our credit portfolio. These policies and procedures, however, may not prevent unexpected losses that could materially adversely affect our results of operations.

*Our allowance for loan losses may not be adequate to cover actual losses.*

In accordance with accounting principles generally accepted in the United States, we maintain an allowance for loan losses to provide for probable loan and lease losses. Our allowance for loan losses may not be adequate to cover actual loan and lease losses, and future provisions for credit losses could materially and adversely affect our operating results. Our allowance for loan losses is based on prior experience, as well as an evaluation of the risks in the current portfolio. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates that may be beyond our control, and these losses may exceed current estimates. Federal and state regulatory agencies, as an integral part of their examination process, review our loans and allowance for loan losses. While we believe that our allowance for loan losses is adequate to cover probable losses, it is possible that we will further increase the allowance for loan losses or that regulators will require increases. Either of these occurrences could materially and negatively affect our earnings.

*The banking business is subject to interest rate risk and variations in interest rates may negatively affect our financial performance.*

Changes in the interest rate environment may reduce our profits. It is expected that we will continue to realize income from the differential between the interest earned on loans, securities and other interest-earning assets, and interest paid on deposits, borrowings and other interest-bearing liabilities. Net interest margin is affected by the difference between the maturities and repricing characteristics of interest-earning assets and interest-bearing liabilities. 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. We may not be able to minimize our interest rate risk. In addition, while an increase in the general level of interest rates may increase our net interest margin and loan yield, it may adversely affect the ability of certain borrowers with variable rate loans to pay the interest on and principal of their obligations. Accordingly, changes in levels of market interest rates could materially and adversely affect our net interest margin, asset quality, loan origination volume and overall profitability.

*We face strong competition from financial services companies and other companies that offer banking services which could negatively affect our business.*

We conduct our banking operations primarily in Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura counties, California. Increased competition in these markets may result in reduced loans and deposits. Ultimately, we may not be able to compete successfully against current and future competitors. Many competitors offer the same banking services that we offer in our service areas. These competitors include national banks, regional banks and other community banks. We also face competition from many other types of financial institutions, including without limitation, savings and loan institutions, finance companies, brokerage firms, insurance companies, credit unions, mortgage banks and other financial intermediaries. In particular,

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competitors include several major financial companies whose greater resources may afford them a marketplace advantage by enabling them to maintain numerous banking locations and ATMs and conduct extensive promotional and advertising campaigns.

Additionally, banks and other financial institutions with larger capitalizations and financial intermediaries not subject to bank regulatory restrictions have larger lending limits than we have and are thereby able to serve the credit needs of larger customers. Areas of competition include interest rates for loans and deposits, efforts to obtain deposits, and range and quality of products and services provided, including new technology-driven products and services. Technological innovation continues to contribute to greater competition in domestic and international financial services markets as technological advances enable more companies to provide financial services. We also face competition from out-of-state financial intermediaries that have opened low-end production offices or that solicit deposits in our market areas. If we are unable to attract and retain banking customers, we may be unable to continue to grow our loan and deposit portfolios and our results of operations and financial condition may otherwise be adversely affected.

### ***We may incur impairments to goodwill.***

We assess goodwill for impairment on an annual basis or at interim periods if an event occurs or circumstances change which may indicate a change in the implied fair value of the goodwill. Impairment exists when the carrying amount of goodwill exceeds its implied fair value. It is our practice to perform the annual impairment assessment at the end of our fiscal year and to use independent data to assist us in determining the fair value of the Company and in determining appropriate market factors to be used in the fair value calculations. At December 31, 2008 the annual assessment resulted in the conclusion that goodwill was not impaired. At September 30, 2009, because of our net loss for the first nine months of 2009, an interim assessment was performed and resulted in the conclusion that goodwill was not impaired. A significant decline in our stock price, a significant decline in our expected future cash flows, a significant adverse change in the business climate or slower growth rates could result in impairment of our goodwill. If we were to conclude that a future write-down of our goodwill is necessary, then we would record the appropriate non-cash charge, which could have an adverse effect on our operating results and financial position.

### ***Changes in economic conditions, in particular an economic slowdown in Southern California, could materially and negatively affect our business.***

Our business is directly impacted by factors such as economic, political and market conditions, broad trends in industry and finance, legislative and regulatory changes, changes in government monetary and fiscal policies and inflation, all of which are beyond our control. A deterioration in economic conditions, whether caused by national or local concerns, in particular an economic slowdown in Southern California, could result in the following consequences, any of which could hurt our business materially: loan delinquencies may increase; problem assets and foreclosures may increase; demand for our products and services may decrease; low cost or noninterest bearing deposits may decrease; and collateral for loans made by us, especially real estate, may decline in value, in turn reducing customers' borrowing power, and reducing the value of assets and collateral associated with our existing loans. The State of California and certain local governments in our market area continue to face fiscal challenges upon which the long-term impact on the State's or the local economy cannot be predicted.

### ***A portion of the Company's loan portfolio consists of construction and land development loans in Southern California, which have greater risks than loans secured by completed real properties.***

At September 30, 2009, First California had outstanding construction and land development loans in Southern California in the amount of approximately \$94.7 million, representing approximately 10% of its loan portfolio. These types of loans generally have greater risks than loans on completed homes, multifamily properties and commercial properties. A construction loan generally does not cover the full amount of the

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construction costs, so the borrower must have adequate funds to pay for the balance of the project. Price increases, delays and unanticipated difficulties can materially increase these costs. Further, even if completed, there is no assurance that the borrower will be able to sell the project on a timely or profitable basis, as these are closely related to real estate market conditions, which can fluctuate substantially between the start and completion of the project. If the borrower defaults prior to completion of the project, the value of the project will likely be less than the outstanding loan, and we could be required to complete construction with our own funds to minimize losses on the project.

### ***Further disruptions in the real estate market could materially and negatively affect our business.***

There has been a slow-down in the real estate market due to negative economic trends and credit market disruption, the impacts of which are not yet completely known or quantified. At September 30, 2009 approximately 73% of our loans are secured by real estate. Any further downturn in the real estate market could materially and adversely affect our business because a significant portion of our loans is secured by real estate. Our ability to recover on defaulted loans by selling the real estate collateral would then be diminished and we would be more likely to suffer losses on defaulted loans. An increase in losses on defaulted loans may have a material impact on our financial condition and results of operations, by reducing income, increasing expenses, and leaving less cash available for lending and other activities.

Substantially all real property collateral for the Company is located in Southern California. Real estate values have declined recently, particularly in California. If real estate sales and appreciation continue to weaken, especially in Southern California, the collateral for our loans would provide less security. Real estate values could be affected by, among other things, an economic recession or slowdown, an increase in interest rates, earthquakes, brush fires, flooding and other natural disasters particular to California.

### ***We are subject to extensive regulation which could adversely affect our business.***

Our operations are subject to extensive regulation by federal, state and local governmental authorities and are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of our operations. Given the current disruption in the financial markets and potential new regulatory initiatives, including the Obama administration's recent financial regulatory reform proposal, new regulations and laws that may affect us are increasingly likely. Because our business is highly regulated, the laws, rules and regulations applicable to us are subject to regular modification and change. There are currently proposed laws, rules and regulations that, if adopted, would impact our operations. These proposed laws, rules and regulations, or any other laws, rules or regulations, may be adopted in the future, which could (1) make compliance much more difficult or expensive, (2) restrict our ability to originate, broker or sell loans or accept certain deposits, (3) further limit or restrict the amount of commissions, interest or other charges earned on loans originated or sold by us, or (4) otherwise adversely affect our business or prospects for business. In addition, it is likely that we will be required to pay significantly higher FDIC premiums in the future because market developments have significantly depleted the insurance fund of the FDIC and reduced the ratio of reserves to insured deposits. Moreover, the FDIC recently decided to require depository institutions to prepay deposit insurance premiums. On November 12, 2009, the FDIC issued a final rule requiring all insured depository institutions to prepay on December 30, 2009 their estimated assessments for the fourth quarter of 2009, and for all of 2010, 2011 and 2012. Under the rule, the assessment rate for the fourth quarter of 2009 and for 2010 will be based on each institution's total base assessment rate for the third quarter of 2009, and the assessment rate for 2011 and 2012 will be equal to the third quarter assessment rate plus an additional 3 basis points. In addition, each institution's base assessment rate for each period will be calculated using its third quarter assessment base, adjusted quarterly for an estimated 5% annual growth rate in the assessment base through the end of 2012. Based on our FDIC quarterly invoice for September 30, 2009, we estimate that our prepayment amount should not exceed \$10 million. Increases in our FDIC premium add to our cost of operations and, accordingly, adversely affect our results of operations.

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Moreover, banking regulators have significant discretion and authority to prevent or remedy unsafe or unsound practices or violations of laws or regulations by financial institutions and holding companies in the performance of their supervisory and enforcement duties. The exercise of regulatory authority may have a negative impact on our financial condition and results of operations.

Additionally, in order to conduct certain activities, including acquisitions, we are required to obtain regulatory approval. There can be no assurance that any required approvals can be obtained, or obtained without conditions or on a timeframe acceptable to us.

### ***We are exposed to risk of environmental liabilities with respect to properties to which we take title.***

In the course of our business, we may own or foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, as the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. If we ever become subject to significant environmental liabilities, our business, financial condition, liquidity and results of operations could be materially and adversely affected.

### ***Our internal operations are subject to a number of risks.***

We are subject to certain operational risks, including, but not limited to, data processing system failures and errors, customer or employee fraud, security breaches of our computer systems and catastrophic failures resulting from terrorist acts or natural disasters. We maintain a system of internal controls to mitigate against such occurrences and maintain insurance coverage for such risks that are insurable, but should such an event occur that is not prevented or detected by our internal controls and uninsured or in excess of applicable insurance limits, it could have a significant adverse impact on our business, financial condition or results of operations.

### ***We face reputation and business risks due to our interactions with business partners, service providers and other third parties.***

We rely on third parties in a variety of ways, including to provide key components of our business infrastructure or to further our business objectives. These third parties may provide services to us and our clients or serve as partners in business activities. We rely on these third parties to fulfill their obligations to us, to accurately inform us of relevant information and to conduct their activities professionally and in a manner that reflects positively on us. Any failure of our business partners, service providers or other third parties to meet their commitments to us or to perform in accordance with our expectations could harm our business and operations, financial performance, strategic growth or reputation.

### ***We face risks in connection with our strategic undertakings.***

If appropriate opportunities present themselves, we may engage in strategic activities, which may include acquisitions, investments, asset purchases or other business growth initiatives or undertakings. There can be no assurance that we will successfully identify appropriate opportunities, that we will be able to negotiate or finance such activities or that such activities, if undertaken, will be successful.

In order to finance future strategic undertakings, we might obtain additional equity or debt financing. Such financing might not be available on terms favorable to us, or at all. If obtained, equity financing could be dilutive and the incurrence of debt and contingent liabilities could have a material adverse affect on our business, results of operations and financial condition.

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Our ability to execute strategic activities successfully will depend on a variety of factors. These factors likely will vary based on the nature of the activity but may include our success in integrating the operations, services, products, personnel and systems of an acquired company into our business, operating effectively with any partner with whom we elect to do business, retaining key employees, achieving anticipated synergies, meeting management's expectations and otherwise realizing the undertaking's anticipated benefits. Our ability to address these matters successfully cannot be assured. In addition, our strategic efforts may divert resources or management's attention from ongoing business operations and may subject us to additional regulatory scrutiny. If we do not successfully execute a strategic undertaking, it could adversely affect our business, financial condition, results of operations, reputation and growth prospects. In addition, if we were to conclude that the value of an acquired business had decreased and that the related goodwill had been impaired, that conclusion would result in an impairment of goodwill charge to us, which would adversely affect our results of operations.

***We are dependent on key personnel and the loss of one or more of those key personnel may materially and adversely affect our prospects.***

We depend heavily on the services of our President and Chief Executive Officer, C. G. Kum, our Executive Vice President and Chief Financial Officer, Romolo C. Santarosa and a number of other key management personnel. The loss of any of their services or that of other key personnel could materially and adversely affect our future results of operations and financial condition. Our success also depends in part on our ability to attract and retain additional qualified management personnel. Competition for such personnel is strong in the banking industry and we may not be successful in attracting or retaining the personnel we require.

***The imposition of certain restrictions on our executive compensation as a result of our decision to participate in the CPP may have material adverse effects on our business and results of operations.***

As a result of our election to participate in the CPP, we must adopt the U.S. Treasury's standards for executive compensation and corporate governance for the period during which the U.S. Treasury holds equity issued under the CPP. These standards would generally apply to our Chief Executive Officer, our Chief Financial Officer and the three next most highly compensated executive officers, referred to collectively as the senior executive officers. The standards include: (1) ensuring that incentive compensation for senior executive officers does not encourage unnecessary and excessive risks that threaten the value of our Company and the Bank, (2) requiring a clawback of any bonus or incentive compensation paid to a senior executive officer based on statements of earnings, gains or other criteria that are later proven to be materially inaccurate, (3) prohibiting golden parachute payments to a senior executive officer, and (4) our agreement not to deduct for tax purposes compensation paid to a senior executive officer in excess of \$500,000. In particular, the change to the deductibility limit on executive compensation may increase our income tax expense in future periods if compensation to a senior executive officer exceeds \$500,000. In conjunction with its purchase of the Series B Preferred Stock, the U.S. Treasury acquired a warrant to purchase 599,042 shares of our common stock. A portion of the warrant is immediately exercisable and has a term of 10 years. Therefore, we could potentially be subject to the executive compensation and corporate governance restrictions for a ten-year period as a result of our participation in the CPP.

***If we are unable to redeem the Series B Preferred Stock within five years, the cost of this capital to us will increase substantially.***

If we are unable to redeem the Series B Preferred Stock prior to February 15, 2014, the cost of this capital to us will increase substantially on that date, from 5.0% per annum (approximately \$1.25 million annually) to 9.0% per annum (approximately \$2.25 million annually). Depending on our financial condition at the time, this increase in the annual dividend rate on the Series B Preferred Stock could have a material negative effect on our liquidity and our earnings available to common shareholders.

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### **Risks Related to Our Common Stock**

***Certain preferences and rights of preferred stockholders of First California may negatively affect the rights of holders of First California common stock.***

First California's certificate of incorporation authorizes its Board of Directors to issue up to 2,500,000 shares of preferred stock and to determine the rights, preferences, powers and restrictions granted or imposed upon any series of preferred stock without prior stockholder approval. The preferred stock that may be authorized could have preference over holders of First California common stock with respect to dividends and other distributions upon the liquidation or dissolution of First California. If First California's Board of Directors authorizes the issuance of additional series of preferred shares having a voting preference over common stock, such issuances may inhibit or delay the approval of measures supported by holders of common stock that require stockholder approval and consequently may make it difficult and expensive for a third party to pursue a tender offer, change in control or takeover attempt that is opposed by our management and Board of Directors. Accordingly, such issuance could substantially impede the ability of public stockholders to benefit from a change in control or change of our management and Board of Directors and, as a result, may adversely affect the market price of our common stock and the stockholders' ability to realize any potential change of control premium.

Currently, in the event of a voluntary or involuntary liquidation or dissolution, holders of our Series A Preferred Stock are entitled to receive a liquidation preference of \$1,000 plus an amount equal to 8.5% per annum of the \$1,000, which is deemed to have commenced accrual on December 10, 2001. Also, holders of our Series B Preferred Stock are entitled to receive a liquidation preference of \$1,000 plus an accrued amount equal to 5.0% per annum of the \$1,000, if any. These amounts are payable out of the assets of First California before any distribution to holders of common stock. If the number of preferred shares having a similar liquidation preference increases, the chance that holders of common stock may receive a smaller distribution upon liquidation or dissolution may be higher.

***Certain restrictions will affect our ability to declare or pay dividends and repurchase our shares as a result of our decision to participate in the CPP.***

As a result of our participation in the CPP, our ability to declare or pay dividends on any of our common stock has been limited. Specifically, we are not able to declare dividend payments on our common, junior preferred or pari passu preferred stock if we are in arrears on the dividends on our Series B Preferred Stock. Further, we are not permitted to pay dividends on our common stock without the U.S. Treasury's approval until the third anniversary of the investment unless the Series B Preferred Stock has been redeemed or transferred. In addition, our ability to repurchase our shares has been restricted. The U.S. Treasury's consent generally will be required for us to make any stock repurchases until the third anniversary of the investment by the U.S. Treasury unless the Series B Preferred Stock has been redeemed or transferred. Further, common, junior preferred or pari passu preferred stock may not be repurchased if we are in arrears on the Series B Preferred Stock dividends to the U.S. Treasury.

***Our ability to pay dividends to holders of our common stock may be restricted by Delaware law and under the terms of indentures governing the trust preferred securities we have issued.***

Our ability to pay dividends to our stockholders is restricted in specified circumstances under indentures governing the trust preferred securities we have issued, and we may issue additional securities with similar restrictions in the future. In addition, our ability to pay any dividends to our stockholders is subject to the restrictions set forth under Delaware law. We cannot assure you that we will meet the criteria specified under these agreements or under Delaware law in the future, in which case we may not be able to pay dividends on our common stock even if we were to choose to do so.

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***We do not expect to pay dividends on our common stock in the foreseeable future.***

We have never paid a cash dividend on our common stock and we do not expect to pay a cash dividend in the foreseeable future. We presently intend to retain earnings and increase capital in furtherance of our overall business objectives. We will periodically review our dividend policy in view of the operating performance of the company, and may declare dividends in the future if such payments are deemed appropriate.

***We are a holding company and depend on our banking subsidiary for dividends, distributions and other payments.***

We are a holding company that conducts substantially all our operations through our banking subsidiary, First California Bank. As a result, our ability to make dividend payments on our common stock depends upon the ability of First California Bank to make payments, distributions and loans to us. The ability of First California Bank to make payments, distributions and loans to us is limited by, among other things, its earnings, its obligation to maintain sufficient capital, and by applicable regulatory restrictions. For example, if, in the opinion of an applicable regulatory authority, First California Bank is engaged in or is about to engage in an unsafe or unsound practice, which could include the payment of dividends under certain circumstances, such authority may take actions requiring that First California Bank refrain from the practice.

Additionally, under applicable California law, First California Bank generally cannot make any distribution (including a cash dividend) to its stockholder, us, in an amount which exceeds the lesser of: (1) the retained earnings of First California Bank and (2) the net income of First California Bank for its last three fiscal years, less the amount of any distributions made by First California Bank to its stockholder during such period. If First California Bank is not able to make payments, distributions and loans to us, we will be unable to pay dividends on our common stock.

***The price of our common stock may fluctuate significantly, and this may make it difficult for you to resell the common stock when you want to or at prices you find attractive.***

We cannot predict how our common stock will trade in the future. The market value of our common stock will likely continue to fluctuate in response to a number of factors including the following, most of which are beyond our control, as well as the other factors described in this Risk Factors section of this prospectus beginning on page 5:

actual or anticipated quarterly fluctuations in our operating and financial results;

developments related to investigations, proceedings or litigation that involve us;

changes in financial estimates and recommendations by financial analysts;

dispositions, acquisitions and financings;

actions of our current stockholders, including sales of our common stock by existing stockholders and our directors and executive officers;

fluctuations in the stock price and operating results of our competitors;

regulatory developments; and

developments related to the financial services industry.

***Only a limited trading market exists for our common stock, which could lead to significant price volatility.***

## Edgar Filing: First California Financial Group, Inc. - Form S-1/A

Our common stock was designated for listing on the NASDAQ Global Market in March 2007 under the trading symbol `FCAL` and trading volumes since that time have been modest. The limited trading market for

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our common stock may cause fluctuations in the market value of our common stock to be exaggerated, leading to price volatility in excess of that which would occur in a more active trading market of our common stock. In addition, even if a more active market in our common stock develops, we cannot assure you that such a market will continue or that stockholders will be able to sell their shares.

***A holder with as little as a 5% interest in First California could, under certain circumstances, be subject to regulation as a bank holding company.***

Any entity (including a group composed of natural persons) owning 25% or more of the outstanding First California common stock, or 5% or more if such holder otherwise exercises a controlling influence over First California, may be subject to regulation as a bank holding company in accordance with the Bank Holding Company Act of 1956, as amended, or the BHCA. In addition, (1) any bank holding company or foreign bank with a U.S. presence may be required to obtain the approval of the Federal Reserve Board under the BHCA to acquire or retain 5% or more of the outstanding First California common stock and (2) any person other than a bank holding company may be required to obtain the approval of the Federal Reserve Board under the Change in Bank Control Act to acquire or retain 10% or more of the outstanding First California common stock. Becoming a bank holding company imposes certain statutory and regulatory restrictions and burdens, and might require the holder to divest all or a portion of the holder's investment in First California. In addition, because a bank holding company is required to provide managerial and financial strength for its bank subsidiary, such a holder may be required to divest investments that may be deemed incompatible with bank holding company status, such as a material investment in a company unrelated to banking.

***Concentrated ownership of our common stock creates risks for our stockholders, including a risk of sudden changes in our share price.***

As of December 4, 2009, First California's directors, executive officers and other affiliates of First California owned approximately 50% of First California's outstanding common stock (not including vested option shares). As a result, if all of these stockholders were to take a common position, they would be able to significantly affect the election of directors, with respect to which stockholders are authorized to use cumulative voting, as well as the outcome of most corporate actions requiring stockholder approval, such as the approval of mergers or other business combinations. Such concentration may also have the effect of delaying or preventing a change in control of First California. In some situations, the interests of First California's directors and executive officers may be different from other stockholders.

Investors who purchase our common stock may be subject to certain risks due to the concentrated ownership of our common stock. The sale by any of our large stockholders of a significant portion of that stockholder's holdings could have a material adverse effect on the market price of our common stock. Furthermore, a group of our large stockholders can demand that we register their shares under certain circumstances. Any such increase in the number of our publicly registered shares may cause the market price of our common stock to decline or fluctuate significantly.

***There may be future sales of additional common stock or preferred stock or other dilution of our equity, which may adversely affect the market price of our common stock.***

We are not restricted from issuing additional common stock or preferred stock, including any securities that are convertible into or exchangeable for, or that represent the right to receive, common stock or preferred stock or any substantially similar securities. The market value of our common stock could decline as a result of sales by us of a large number of shares of common stock or preferred stock or similar securities in the market or the perception that such sales could occur.

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**USE OF PROCEEDS**

We expect to receive net proceeds from this offering of approximately \$ (or approximately \$ if the underwriter exercises its over-allotment option in full), after deduction of underwriting discounts and commissions and estimated expenses payable by us.

We intend to use the net proceeds of this offering for general corporate purposes, including funding working capital requirements, supporting growth of First California's banking business from internal growth and from possible acquisitions, and regulatory capital needs related to any such growth and acquisitions. We also may contribute some portion of the net proceeds to the capital of the Bank, which would use such amount for similar general corporate purposes.

**Table of Contents****CAPITALIZATION**

The following table sets forth our actual cash and due from banks, capitalization, per common share book values, and regulatory capital ratios, each as of September 30, 2009 and as adjusted to give effect to the issuance of the common stock offered hereby and the use of proceeds with respect thereto, as described in the Use of Proceeds section of this prospectus.

	As of September 30, 2009	
	Actual	As Adjusted(1)
	(Dollars in thousands, except per share data)	
Cash and due from banks	\$ 42,753	\$
Junior subordinated debentures	\$ 26,740	\$
Shareholders' equity		
Preferred stock, authorized 2,500,000 shares, \$0.01 par value		
Series A issued and outstanding 1,000 shares, actual and as adjusted	1,000	
Series B issued and outstanding 25,000 shares, actual and as adjusted	23,056	
Common stock, authorized 25,000,000 shares, \$0.01 par value; issued 11,972,034 shares, actual; issued 19,472,034 shares, as adjusted; outstanding 11,625,633 shares, actual; outstanding 19,125,633 shares, as adjusted	118	
Additional paid-in capital	136,389	
Treasury stock, 346,401 shares at cost, actual and as adjusted	(3,061)	
Retained earnings	8,600	
Accumulated other comprehensive income (loss)	(5,044)	
Total shareholders' equity	161,058	
Total capitalization(2)	\$ 187,798	\$
Per Common Share		
Common book value per share	\$ 11.78	
Tangible common book value per share	5.53	
Regulatory Capital Ratios		
For the Company:		
Total capital to risk weighted assets	12.47%	
Tier 1 capital to risk weighted assets	11.34%	
Tier 1 capital to average assets	8.81%	
For the Bank:		
Total capital to risk weighted assets	11.62%	
Tier 1 capital to risk weighted assets	10.48%	
Tier 1 capital to average assets	8.10%	

(1) Assumes that 7,500,000 shares of our common stock are sold in this offering at \$ \_\_\_\_\_ per share and that the net proceeds thereof are approximately \$ \_\_\_\_\_ million after deducting underwriting discounts and commissions and our estimated expenses. If the underwriter's over-allotment option is exercised in full, net proceeds will increase to approximately \$ \_\_\_\_\_ million.

(2) Includes shareholders' equity and junior subordinated debentures.

**Table of Contents****PRICE RANGE OF COMMON STOCK**

The common stock of First California began trading on the NASDAQ Global Market under the symbol **FCAL** on March 13, 2007. Prior to that time, the common stock of National Mercantile, our predecessor, traded on the NASDAQ Capital Market under the symbol **MBLA**.

The information in the following table indicates the high and low sales prices for National Mercantile's common stock from January 1, 2007 to March 12, 2007 and for our common stock from March 13, 2007 to December 4, 2009, as reported by NASDAQ. Because of the limited market for National Mercantile's common stock before March 13, 2007 and our common stock after that time, these prices may not be indicative of the fair market value of the common stock. The information does not include transactions for which no public records are available. The trading prices in such transactions may be higher or lower than the prices reported below.

As of December 4, 2009, we had approximately 11,627,008 shares of common stock outstanding, held of record by approximately 479 stockholders. The last reported sales price of our common stock on the NASDAQ Global Market on December 4, 2009 was \$3.58 per share.

<b>Quarter Ended</b>	<b>High</b>	<b>Low</b>
<b>2009</b>		
December 31 (through December 4)	\$ 5.05	\$ 3.26
September 30	\$ 6.48	\$ 4.32
June 30	\$ 8.45	\$ 3.89
March 31	\$ 7.75	\$ 3.62
<b>2008</b>		
December 31	\$ 8.60	\$ 4.71
September 30	\$ 9.00	\$ 5.17
June 30	\$ 9.15	\$ 5.50
March 31	\$ 9.25	\$ 7.11
<b>2007</b>		
December 31	\$ 10.50	\$ 6.90
September 30	\$ 12.30	\$ 9.25
June 30	\$ 13.95	\$ 11.32
March 31	\$ 13.96	\$ 12.60

**DIVIDEND POLICY**

From our inception and until the completion of the mergers in March 2007, we were a business combination shell company, conducting no operations or owning or leasing any real estate or other property. Accordingly, we did not pay any dividends to our sole stockholder, National Mercantile, prior to the mergers, nor have we paid any dividends to our common stockholders since the completion of the mergers. We do not currently expect to pay a cash dividend to our common stockholders in the foreseeable future. We presently intend to retain earnings and increase capital in furtherance of our overall business objectives. We will periodically review our dividend policy in view of our operating performance, and may declare dividends in the future if such payments are deemed appropriate.

In addition, we cannot declare or pay a dividend on our common stock without the consent of the U.S. Treasury until the third anniversary of the date of the CPP investment, or December 19, 2011, unless prior to such third anniversary the Series B Preferred Stock is redeemed in whole or the U.S. Treasury has transferred all of the Series B Preferred Stock to third parties. We also may not pay dividends on our capital stock if we are in default or have elected to defer payments of interest under our junior subordinated debentures.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Overview**

The following discussion is designed to provide a better understanding of significant trends related to the consolidated results of operations and financial condition of First California and its wholly owned subsidiaries. When we say we, our or us, we mean First California and its consolidated subsidiaries after the mergers. This discussion and information is derived from our audited consolidated financial statements and related notes for the two years ended December 31, 2008 and 2007 and our unaudited consolidated financial statements and related notes for the periods ended September 30, 2009 and 2008. You should read this discussion in conjunction with those consolidated financial statements appearing elsewhere in this prospectus.

We were a wholly owned subsidiary of National Mercantile formed to facilitate the reincorporation merger with National Mercantile and the merger with FCB completed on March 12, 2007. Accordingly, our historical balance sheet and results of operations before the mergers are the same historical information of National Mercantile. We accounted for the FCB merger using the purchase method of accounting; accordingly, our balance sheet includes the estimates of the fair value of the assets acquired and liabilities assumed from FCB. Our results of operations for the twelve months ended December 31, 2007 include the operations of FCB from the date of acquisition.

The Company is a bank holding company which serves the comprehensive banking needs of businesses and consumers in Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura counties through our wholly owned subsidiary, First California Bank. The Bank is a state-chartered commercial bank which provides traditional business and consumer banking products ranging from construction finance, entertainment finance and commercial real estate lending via 17 full-service branch locations. The Company also has two unconsolidated statutory business trust subsidiaries, First California Capital Trust I and FCB Statutory Trust I, which raised capital through the issuance of trust preferred securities.

At September 30, 2009, we had total assets of \$1.5 billion, gross loans of \$940.9 million, deposits of \$1.1 billion and shareholders' equity of \$161.1 million. At December 31, 2008, we had total assets of \$1.2 billion, gross loans of \$788.4 million, deposits of \$817.6 million and shareholders' equity of \$158.9 million.

For the third quarter of 2009, we had a net loss of \$0.1 million, compared with net income of \$1.8 million for the third quarter of 2008. Our net loss for the first nine months of 2009 was \$1.8 million, compared to net income for the first nine months of 2008 of \$5.2 million.

After a dividend payment of \$312,500 on our Series B preferred shares, we incurred a loss per diluted common share of \$0.04 for the 2009 third quarter. Our 2008 third quarter net income on a diluted per common share basis was \$0.15. Our net loss for the first nine months of 2009, after Series B preferred share dividends of \$819,000, was \$0.23 per diluted common share. Our net income for the first nine months of 2008 on a diluted per common share basis was \$0.45.

**Critical Accounting Policies**

We based our discussion and analysis of our consolidated results of operations and financial condition on our unaudited consolidated interim financial statements and our audited consolidated financial statements which have been prepared in accordance with generally accepted accounting principles. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, income and expense, and the related disclosures of contingent assets and liabilities at the date of these consolidated financial statements. We believe these estimates and assumptions to be reasonably accurate; however, actual results may differ from these estimates under different assumptions or circumstances. The following are our critical accounting policies and estimates.

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### ***Allowance for loan losses***

We establish the allowance for loan losses through a provision charged to expense. We charge-off loan losses against the allowance when we believe that the collectability of the loan is unlikely. The allowance is an amount that we believe will be adequate to absorb probable losses on existing loans that may become uncollectible, based on evaluations of the collectability of loans and prior loan loss experience. The evaluation includes an assessment of the following factors: any external loan review and any regulatory examination, estimated probable loss exposure on each pool of loans, concentrations of credit, value of collateral, the level of delinquency and nonaccruals, trends in the portfolio volume, effects of any changes in the lending policies and procedures, changes in lending personnel, present economic conditions at the local, state and national level, the amount of undisbursed off-balance sheet commitments, and a migration analysis of historical losses and recoveries for the prior eight quarters. Various regulatory agencies, as a regular part of their examination process, periodically review our allowance for loan losses. Such agencies may require us to recognize additions to the allowance based on their judgment of information available to them at the time of their examination. The allowance for loan losses was \$12.1 million at September 30, 2009 and was \$8.0 million at December 31, 2008.

### ***Deferred income taxes***

We recognize deferred tax assets subject to our judgment that realization of the assets are more-likely-than-not. We establish a valuation allowance when we determine that realization of income tax benefits may not occur in future years. There were net deferred tax assets of \$0.5 million at September 30, 2009 and net deferred tax assets of \$2.6 million at December 31, 2008. There was no valuation allowance at either period end.

### ***Derivative instruments and hedging***

For derivative instruments designated in cash flow hedging relationships, we assess the effectiveness of the instruments in off-setting changes in the overall cash flows of designated hedged transactions on a quarterly basis. Beginning in the second quarter of 2008, we no longer had any derivative instruments designated in cash flow hedging relationships on our consolidated balance sheet. For the first nine months of 2008, we also had an interest rate floor for which we did not designate a hedging relationship. Accordingly, we recognized all changes in fair value of the interest rate floor directly in current period earnings. We owned no derivative instruments in 2009.

### ***Assessments of impairment***

Goodwill arises from business combinations and represents the value attributable to the unidentifiable intangible elements in our acquired businesses. Goodwill is initially recorded at fair value and is subsequently evaluated at least annually for impairment in accordance with the Financial Accounting Standards Board, or FASB, Accounting Standard Codification Update Related to Business Combinations. We perform this annual test as of December 31 of each year. Evaluations are also performed on a more frequent basis if events or circumstances indicate impairment could have taken place. Such events could include, among others, a significant adverse change in the business climate, an adverse action by a regulator, a significant decrease in the market capitalization of the Company, an unanticipated change in the competitive environment, and a decision to change the operations or dispose of a significant business unit or product line.

The first step in this evaluation process is to determine if a potential impairment exists and, if the results of this exercise demonstrate potential impairment we next embark on a second step to determine the amount of impairment loss, if any. The computations required in these two exercises requires us to make a number of estimates and assumptions. In completing the first step, we determine the fair value of the Company. In determining the fair value, we calculate the value using a combination of three separate methods: the trading multiple of comparable publicly traded financial institutions; the acquisition premium of comparable acquisitions of financial institutions; and the discounted present value of our estimates of future cash flows. Critical assumptions that are used as part of these calculations include:

selection of comparable publicly traded companies, based upon location, size and business composition;

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selection of market comparable acquisition transactions, based on location, size, business composition, and date of the transaction;

the discount rate applied to future earnings, based upon an estimate of the cost of capital;

the potential future earnings of the Company; and

the relative weight given to the valuations derived by the three methods described.

If the first step indicates a potential impairment, we next determine or estimate the implied fair value of the goodwill. This process estimates the fair value of the Company's individual assets and liabilities in the same manner as if a purchase of the Company were taking place. To do this, we must determine the fair value of the assets, liabilities and identifiable intangible assets of the Company based upon the best available information. We estimate the fair market value of all of the tangible assets, identifiable intangible assets and liabilities of the Company in accordance with the FASB Accounting Guidance Related to Fair Value Measurements. Loans, deposits with maturities, and debt are valued using assumptions regarding future cash flows, appropriate discount rates and other estimates, such as credit and market liquidity assumptions, to comply with the FASB Accounting Guidance Related to Fair Value Measurements. Deposits with no maturities are valued at book value. Owned properties are appraised, while for furniture, fixtures and equipment it is assumed book value approximates fair market value. Identifiable intangible assets such as core deposit intangibles and trade name intangibles are also identified and valued. If the implied fair value of goodwill calculated in this exercise is less than the carrying amount of goodwill, an impairment is indicated and the carrying value of goodwill is written down to its estimated fair value.

Effective December 31, 2008, we performed our annual goodwill impairment evaluation. Upon completion of the first step of the evaluation process, we concluded that potential impairment of goodwill existed. The second step was completed with the assistance of an independent valuation firm and our internal valuation resources and resulted in our conclusion that goodwill was not impaired at December 31, 2008. At September 30, 2009, because of the net loss for the nine months ended September 30, 2009, we performed an interim assessment and concluded that goodwill was not impaired.

We also review our securities on an ongoing basis for the presence of other-than-temporary impairment, with formal reviews performed quarterly. Other-than-temporary losses on an individual security is recognized as a realized loss through earnings when it is probable that we will not collect all of the contractual cash flows of that security or we are unable to hold the security to recovery.

Our other-than-temporary impairment evaluation process conforms to the FASB Accounting Standards Codification Guidance Related to the Consideration of Impairment Related to Certain Debt and Equity Securities. These rules require us to take into consideration current market conditions, fair value in relationship to cost, extent and nature of change in fair value, issuer rating changes and trends, current analysts evaluations, all available information relevant to the collectability of debt securities, our ability and intent to hold the security until a recovery of fair value, which may be maturity, and other factors when evaluating for the existence of other-than-temporary impairment in our securities. At December 31, 2008 we evaluated the unrealized loss in our securities portfolio and concluded that there was no other-than-temporary impairment. Based upon the results of our other-than-temporary impairment analysis as of June 30, 2009, we recorded an other-than-temporary impairment loss of \$565,000 on one security. The Company did not record any additional other-than-temporary impairment loss in the third quarter of 2009. We will continue to evaluate our securities portfolio for other-than-temporary impairment at each reporting date and we can provide no assurance there will not be another other-than-temporary loss in future periods.

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### **Recent Developments**

#### ***FDIC-assisted 1st Centennial Bank Transaction***

On January 23, 2009, the Bank assumed the insured, non-brokered deposits of 1st Centennial Bank, totaling approximately \$270 million, from the FDIC. Under the terms of the purchase and assumption agreement with the FDIC, the Bank also purchased from the FDIC approximately \$178 million in cash and cash equivalents, \$89 million in securities and \$101 million in loans related to 1st Centennial Bank. The assumption of deposits and purchase of assets from the FDIC was an all-cash transaction with an aggregate transaction value of \$48.8 million. The Bank recorded \$10.6 million in goodwill in connection with this transaction. We have since fully integrated all six of the former 1st Centennial Bank branches into the Bank's full-service branch network.

#### ***Emergency Economic Stabilization Act of 2008 (Troubled Asset Relief Program Capital Purchase Program)***

In response to the financial crisis affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions, on October 3, 2008, the EESA became law. Through its authority under the EESA, the U.S. Treasury announced in October 2008 the CPP, a program designed to bolster healthy institutions, like us, by making \$250 billion of capital available to U.S. financial institutions in the form of preferred stock.

We participated in the CPP in December 2008 so that we could continue to lend and support our current and prospective clients, especially during this unstable economic environment. Since our participation in the CPP, we were able to increase the average balance of our commercial and consumer loans by \$194.6 million, or 30 percent, from December 31, 2008 to September 30, 2009. Under the terms of our participation, we received \$25 million in exchange for the issuance of preferred stock and a warrant to purchase common stock, and became subject to various requirements, including certain restrictions on paying dividends on our common stock and repurchasing our equity securities, unless the U.S. Treasury has consented. Additionally, in order to participate in the CPP, we were required to adopt certain standards for executive compensation and corporate governance. These standards generally apply to the Chief Executive Officer, Chief Financial Officer and the three next most highly compensated senior executive officers, and include (1) ensuring that incentive compensation of senior executives does not encourage unnecessary and excessive risks that threaten the value of the financial institution; (2) required claw-back of any bonus or incentive compensation paid to a senior executive based on statements of earnings, gains or other criteria that are later proven to be materially inaccurate; (3) limiting golden parachute payments to certain senior executives; and (4) agreement not to deduct for tax purposes executive compensation in excess of \$500,000 for each senior executive. To date, we have complied with these requirements, but the Secretary of the Treasury is empowered under EESA to adopt other standards, with which we would be required to comply. Additionally, the bank regulatory agencies, U.S. Treasury and the Office of Special Inspector General, also created by the EESA, have issued guidance and requests to the financial institutions that participated in the CPP to document their plans and use of CPP funds and their plans for addressing the executive compensation requirements associated with the CPP. We will respond to such requests accordingly.

In February 2009, the U.S. Congress enacted the ARRA. Among other provisions, the ARRA amended the EESA and contains requirements imposed on financial institutions like us which have already participated in the CPP. These requirements expand the initial executive compensation restrictions under the CPP to include, among other things, application of the required claw-back provision to our top 25 most highly compensated employees, prohibition of certain bonuses to our top five most highly compensated employees, expanded limitations on golden parachute payments to our top ten most highly compensated employees, implementation of a company-wide policy regarding excessive and luxury expenditures, and requirement of a shareholder advisory vote on our

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executive compensation.<sup>1</sup> Under the new ARRA requirements, we may redeem early the shares issued to the U.S. Treasury under the CPP without any penalty or requirement to raise new capital, as previously required under the original terms of the CPP. However, until the shares are redeemed and for so long as we continue to participate in the CPP, we will remain subject to these expanded requirements and any other requirements applicable to CPP participants that may be subsequently adopted.

On June 10, 2009, the U.S. Treasury issued an interim final rule implementing and providing guidance on the executive compensation and corporate governance provisions of EESA, as amended by ARRA. The regulations were published in the Federal Register on June 15, 2009 and set forth the following requirements:

Evaluation of employee compensation plans and potential to encourage excessive risk or manipulation of earnings;

Compensation committee discussion, evaluation and review of senior executive officer compensation plans and other employee compensation plans to ensure that they do not encourage unnecessary and excessive risk;

Compensation committee discussion, evaluation and review of employee compensation plans to ensure that they do not encourage manipulation of reported earnings;

Compensation committee certification and disclosure requirements regarding evaluation of employee compensation plans;

Claw-back of bonuses based on materially inaccurate financial statements or performance metrics;

Prohibition on golden parachute payments;

Limitation on bonus payments, retention awards and incentive compensation;

Disclosure regarding perquisites and compensation consultants;

Prohibition on gross-ups;

Luxury or excessive expenditures policy;

Shareholder advisory resolution on executive compensation; and

Annual compliance certification by principal executive officer and principal financial officer.

Additionally, the regulations provided for the establishment of the Office of the Special Master for TARP Executive Compensation with authority to review certain payments and compensation structures.

In general, neither the requirements of EESA, as amended by ARRA, nor the U.S. Treasury's regulations promulgated thereunder apply retroactively prior to June 15, 2009, the date the regulations were published in the Federal Register. The regulations confirm that the bonus

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payment limitation does not apply to amounts accrued or paid prior to June 15, 2009, and the golden parachute prohibition applies only to payments due to departures on or after June 15, 2009. Many of the requirements apply only during the period during which an obligation arising from financial assistance under the TARP remains outstanding, disregarding unexercised warrants but, for companies that have already received financial assistance, no earlier than June 15, 2009. For companies that become TARP recipients following June 15, 2009, the requirements and restrictions generally become effective when the company receives TARP funds.

The EESA also increased FDIC deposit insurance on most accounts from \$100,000 to \$250,000. The increase in deposit insurance expires at the end of 2013 and deposit insurance premiums paid by the banking industry were unaffected by this increase. The FDIC utilizes a risk-based assessment system that imposes insurance premiums based upon a risk matrix that takes into account a bank's capital level and supervisory

<sup>1</sup> At our Annual Meeting of Stockholders held on May 27, 2009, all matters presented before the meeting were approved by the requisite vote, including a substantial majority of votes cast in favor of our executive compensation, as set forth in our "Say on Pay" item.

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rating. Effective February 2009, the FDIC adopted a rule to uniformly increase 2009 FDIC deposit assessment rates by 7 to 9 cents for every \$100 of domestic deposits. The FDIC also assessed a special assessment of 5 cents on each institution's assets minus Tier 1 capital as of June 30, 2009, to restore the deposit insurance fund reserves. Our special assessment amount was \$668,000. The FDIC has recently adopted a rule requiring insured depository institutions to prepay their quarterly risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012, on December 30, 2009, along with each institution's risk-based deposit insurance assessment for the third quarter of 2009. FDIC insurance premiums are expected to increase significantly in 2009 compared to prior years. Annual FDIC insurance expense was \$682,000 in 2008 and \$164,000 in 2007. With the 5 basis point special assessment included, we estimate our 2009 FDIC insurance expense will be approximately \$3.0 million.

In addition, the FDIC has implemented two temporary programs under the TLGP to provide deposit insurance for the full amount of most non-interest bearing transaction accounts through the end of 2009 and to guarantee certain unsecured debt of financial institutions and their holding companies through June 2012. The Bank is participating in the transaction account deposit insurance program. Under the deposit insurance program, through December 31, 2009, the FDIC guarantees all noninterest-bearing for the entire amount in the account. Coverage under this program is in addition to and separate from the coverage available under the FDIC's general deposit insurance rules. The FDIC charges systemic risk special assessments to depository institutions that participate in the TLGP.

## **Results of Operations**

### ***Three and nine months ended September 30, 2009 and 2008***

Our earnings are derived predominantly from net interest income, which is the difference between interest and fees earned on loans, securities and federal funds sold (these asset classes are commonly referred to as interest-earning assets) and the interest paid on deposits, borrowings and debentures (these liability classes are commonly referred to as interest-bearing funds). The net interest margin is net interest income divided by average interest-earning assets.

Our net interest income for the third quarter of 2009 was \$11.4 million, up from \$10.3 million for the same period a year ago. The net interest margin (tax equivalent) for the third quarter of 2009 was 3.50 percent compared with 4.18 percent for the same quarter last year. Our net interest income for the nine months ended September 30, 2009 increased to \$34.0 million from \$30.9 million for the nine months ended September 30, 2008. Our net interest margin (tax equivalent) for the first nine months of 2009 was 3.60 percent, compared to 4.17 percent for the same period last year. The increase in our net interest income reflects the increase in our interest-earning assets from the FDIC-assisted 1st Centennial Bank transaction and from the growth in our lending activities. The decrease in our net interest margin reflects the effect of higher levels of lower-yielding Federal funds sold and the decrease in rates earned on interest-earning assets, offset in part by the decrease in the rates paid for our interest-bearing funds.

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The following table presents the distribution of our average assets, liabilities and shareholders' equity in combination with the total dollar amounts of interest income from average interest earning assets and the resultant yields, and the dollar amounts of interest expense and average interest bearing liabilities, expressed in both dollars and rates for the three and nine months ended September 30, 2009 and 2008. Loans include loans held-for-sale and loans on non-accrual status.

	Three months ended September 30,					
	2009			2008		
	Average	Interest	Weighted	Average	Interest	Weighted
(dollars in thousands)	Balance	Income/ Expense	Average Yield/ Rate	Balance	Income/ Expense	Average Yield/ Rate
Loans(2)	\$ 935,848	\$ 13,331	5.65%	\$ 778,104	\$ 12,674	6.48%
Securities	262,664	2,819	4.49%	213,699	2,870	5.54%
Federal funds sold and deposits with banks	108,165	78	0.29%	850	4	1.87%
Total earning assets	1,306,677	\$ 16,228	4.97%	992,653	\$ 15,548	6.26%
Non-earning assets	152,404			129,391		
Total average assets	\$ 1,459,081			\$ 1,122,044		
Interest bearing checking	\$ 80,514	\$ 65	0.32%	\$ 58,911	\$ 105	0.71%
Savings and money market	290,894	839	1.14%	183,262	723	1.57%
Certificates of deposit	441,737	2,034	1.83%	316,341	2,132	2.68%
Total interest bearing deposits	813,145	2,938	1.43%	558,514	2,960	2.11%
Borrowings	151,930	1,455	3.80%	195,771	1,801	3.66%
Junior subordinated debentures	26,733	439	6.57%	26,683	439	6.58%
Total borrowed funds	178,663	1,894	4.21%	222,454	2,240	4.01%
Total interest bearing funds	991,808	\$ 4,832	1.93%	780,968	\$ 5,200	2.65%
Noninterest checking	295,444			192,289		
Other liabilities	11,554			12,266		
Shareholders' equity	160,275			136,521		
Total liabilities and shareholders' equity	\$ 1,459,081			\$ 1,122,044		
Net interest income		\$ 11,396			\$ 10,348	
<b>Net interest margin (tax equivalent)(1)</b>			<b>3.50%</b>			<b>4.18%</b>

(1) Includes tax equivalent adjustments primarily related to tax-exempt income on securities.

(2) Interest on loans includes loan fees and costs, which totaled \$(0.1) million and \$0.3 million for the three months ended September 30, 2009 and 2008, respectively, and zero and \$0.7 million for the nine months ended September 30, 2009 and 2008, respectively. The average loan balance includes loans held-for-sale and nonaccrual loans where nonaccrual interest is excluded.

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	Nine months ended September 30,					
	2009			2008		
	Average	Interest	Weighted	Average	Interest	Weighted
(dollars in thousands)	Balance	Income/ Expense	Average Yield/ Rate	Balance	Income/ Expense	Average Yield/ Rate
Loans(2)	\$ 913,256	\$ 39,144	5.73%	\$ 778,337	\$ 39,391	6.76%
Securities	272,706	9,847	5.08%	220,837	8,827	5.50%
Federal funds sold and deposits with banks	90,467	368	0.54%	909	18	2.65%
Total earning assets	1,276,429	\$ 49,359	5.21%	1,000,083	\$ 48,236	6.48%
Non-earning assets	155,190			126,071		
Total average assets	\$ 1,431,619			\$ 1,126,154		
Interest bearing checking	\$ 77,096	\$ 168	0.29%	\$ 57,667	\$ 342	0.79%
Savings and money market	256,122	2,077	1.08%	200,533	2,928	1.95%
Certificates of deposit	460,044	7,274	2.11%	296,235	7,105	3.20%
Total interest bearing deposits	793,262	9,519	1.60%	554,435	10,375	2.49%
Borrowings	158,466	4,512	3.81%	201,612	5,599	3.71%
Junior subordinated debentures	26,720	1,365	6.81%	26,670	1,316	6.58%
Total borrowed funds	185,186	5,877	4.24%	228,282	6,915	4.05%
Total interest bearing funds	978,448	\$ 15,396	2.10%	782,717	\$ 17,290	2.95%
Noninterest checking	280,036			192,704		
Other liabilities	12,808			13,528		
Shareholders' equity	160,327			137,205		
Total liabilities and shareholders' equity	\$ 1,431,619			\$ 1,126,154		
Net interest income		\$ 33,963			\$ 30,946	
<b>Net interest margin (tax equivalent)(1)</b>			<b>3.60%</b>			<b>4.17%</b>

(1) Includes tax equivalent adjustments primarily related to tax-exempt income on securities.

(2) Interest on loans includes loan fees and costs, which totaled \$(0.1) million and \$0.3 million for the three months ended September 30, 2009 and 2008, respectively, and zero and \$0.7 million for the nine months ended September 30, 2009 and 2008, respectively. The average loan balance includes loans held-for-sale and nonaccrual loans where nonaccrual interest is excluded.

Our net interest income changes with the level and mix of average interest-earning assets and average interest-bearing funds. We call the changes between periods in interest-earning assets and interest-bearing funds balance changes. We measure the effect on our net interest income from balance changes by multiplying the change in the average balance between the current period and the prior period by the prior period average rate.

Our net interest income also changes with the average rate earned or paid on interest-earning assets and interest-bearing funds. We call the changes between periods in average rates earned and paid rate changes. We measure the effect on our net interest income from rate changes by multiplying the change in average rates earned or paid between the current period and the prior period by the prior period average balance.

We allocate the change in our net interest income attributable to both balance and rate on a pro rata basis to the change in average balance and the change in average rate.





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Our service charges, fees and other income for the three months ended September 30, 2009 increased to \$1.3 million, up 45 percent from \$0.9 million for the three months ended September 30, 2008. Our service charges, fees and other income for the nine months ended September 30, 2009 increased to \$3.8 million, up 37 percent from \$2.8 million for the nine months ended September 30, 2008. The increase in the amount of service

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charges on deposits and other income reflects the increase in our core deposit base and other business activities in the past year and the effect of the additional six branches from the FDIC-assisted 1st Centennial Bank transaction.

We estimated the effectiveness of our interest rate swaps in off-setting changes in cash flow of hedged items and determined that a portion of these instruments were ineffective during the three and nine months ended September 30, 2008. We recognize the unrealized gains and losses related to the ineffective portion of our interest rate swaps in noninterest income. We also had an interest rate floor for which we did not designate a hedging relationship and we recognize all changes in fair value of the interest rate floor directly in current period earnings. For the three months ended September 30, 2008, we recognized losses of \$1,000 and for the nine months ended September 30, 2008, we recognized gains of \$857,000, all related to the ineffective interest rate swaps and the non-hedged interest rate floor. We terminated the interest rate swap contracts in the second quarter of 2008 and the interest rate floor contract expired in December 2008. We no longer own any derivative instruments in 2009.

During the first nine months of 2009, we did not sell any loans compared to loans sold of \$24.7 million for a gain of \$175,000 in the first nine months of 2008. In addition, we brokered loans for commissions of \$76,000 for the first nine months of 2009 compared with \$207,000 for the first nine months of 2008. We had no loans held-for-sale at the end of the third quarter of 2009 compared with \$31.4 million at December 31, 2008.

We also recognized in noninterest income an other-than-temporary impairment loss of \$565,000 on one security based upon the results of our other-than-temporary impairment analysis at June 30, 2009. We will continue to evaluate our securities portfolio for other-than-temporary impairment at each reporting date and we can provide no assurance there will not be another other-than-temporary loss in future periods.

In the third quarter of 2009, we sold \$47.8 million of securities and realized gains of \$1.6 million. For the first nine months of 2009 we sold \$116.2 million of securities and realized gains of \$4.3 million. There were no securities transactions in the first nine months of 2008.

Our noninterest expense for the three months ended September 30, 2009 was \$11.3 million compared with \$8.2 million for the three months ended September 30, 2008. Our noninterest expense for the nine months ended September 30, 2009 was \$34.9 million compared with \$25.4 million for the nine months ended September 30, 2008. The increase in noninterest expense for quarter and year-to-date periods reflects the growth in the number of offices and the number of employees arising from the FDIC-assisted 1st Centennial Bank transaction as well as several other items, most notably FDIC insurance premiums. The number of offices has grown from 12 in the third quarter of 2008 to 17 offices in the third quarter of 2009. Our number of employees also has grown by approximately 15 percent since the third quarter of 2008.

In addition to the growth in branches and personnel, we also incurred costs of approximately \$51,000 for the 2009 third quarter and \$774,000 for the first nine months of 2009 associated with the FDIC-assisted 1st Centennial Bank transaction. These costs represent transitional personnel, legal and professional services as well as data processing, postage, supplies, stationary and other expenses attendant to the conversion and integration of 1st Centennial Bank. We completed the system conversion and integration of 1st Centennial Bank in the 2009 second quarter.

During the 2009 third quarter, in response to the continuing economic recession and current business activity levels, we reduced our workforce by approximately 10 percent. We expect personnel expenses will fall approximately \$2.2 annually because of this action. We incurred separation expenses of approximately \$235,000 in the 2009 third quarter.

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In addition, during the third quarter of 2009, we closed a branch unrelated to the FDIC-assisted 1st Centennial Bank transaction that reduced the number of offices to 17. We expect to save approximately \$175,000 annually because of this action. We transferred the deposit relationships of this office to near-by offices and we do not anticipate that we will experience a significant decline in deposit balances.

We acquired real estate through a foreclosure and sold previously foreclosed upon real estate in the quarter ended September 30, 2009. The cost of foreclosed real estate and the loss on sale of foreclosed real estate was \$193,000 for the third quarter of 2009 and \$442,000 for the nine months ended September 30, 2009. We had no comparable expense for all periods of 2008.

The FDIC charged all institutions a special insurance assessment as of June 30, 2009. We estimated our special insurance assessment would be \$675,000 and charged that amount to noninterest expense in the second quarter of 2009. Our actual assessment was \$668,000 and the difference between our estimate and the actual amount was included in third quarter noninterest expense. The FDIC may assess an additional special insurance assessment before the end of 2009. In addition, the FDIC increased regular insurance premiums. With a larger deposit base and increased premiums, our regular FDIC insurance expense for the 2009 third quarter was \$720,000 compared with \$168,000 for the 2008 third quarter. For the first nine months ended September 30, 2009, our regular FDIC insurance expense was \$1,473,000 compared with \$507,000 for the same period a year ago.

The income tax benefit was \$1.9 million for the nine months ended September 30, 2009 compared with an income tax provision of \$3.3 million for the same period in 2008. The combined federal and state effective tax rate for the nine months ended September 30, 2009 was 51.4 percent compared with 39.0 percent for the same period in 2008. The effective tax rate can fluctuate from period to period based upon the expected level of taxable income for a period and the percentage impact permanent tax versus book differences have on the expected book income.

Our efficiency ratio was 86 percent for the third quarter of 2009 compared with 69 percent for the third quarter of 2008. Our efficiency ratio was 91 percent for the first nine months of 2009 compared with 70 percent for the first nine months of 2008. The efficiency ratio is the percentage relationship of noninterest expense, excluding amortization of intangibles, to the sum of net interest income and noninterest income, excluding gains or losses on security sales. The increase in the efficiency ratio for all periods reflects the integration and conversion expenses related to the FDIC-assisted 1st Centennial Bank transaction and the lag between these costs and the revenue from the full deployment of the newly acquired liquid assets as well as the expenses related to foreclosed property, the increase in FDIC deposit insurance premiums and special assessment, the market loss on loans held-for-sale and the impairment loss on securities.

## **Results of Operations**

### ***Years ended December 31, 2008 and 2007***

Net income for the year ended December 31, 2008 was \$6.4 million or 54 cents per diluted common share compared with net income of \$7.1 million or 66 cents per diluted common share in 2007. Net income for 2007 was affected by the mergers completed in the first quarter of 2007. Our 2007 net income includes nine months and 19 days of combined results as well as the effect of merger-related gains and charges.

### ***Net interest income***

Net interest income is the difference between interest earned on assets and interest incurred on liabilities. Taxable-equivalent net interest income is the largest component of First California's revenue. By its nature, net interest income is especially vulnerable to changes in the mix and amounts of interest-earning assets and interest-bearing liabilities. In addition, changes in the interest rates and yields associated with these assets and liabilities

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significantly impact net interest income. See Interest Rate Risk on page 72 for further discussion of how we manage the portfolios of interest-earning assets and interest-bearing liabilities and associated risk.

Net interest income for 2008 was \$40.8 million compared with \$40.2 million last year. Average interest-earning assets for 2008 were \$1.01 billion, up 16 percent from \$873 million last year. The yield on average interest-earning assets for 2008 declined to 6.26% from 7.57%. The decline in the yield outpaced the benefit from growth in average interest-earning assets which resulted in a decline in interest income of \$2.5 million.

The increase in average interest-earning assets was supported by an increase in average interest-bearing liabilities, principally time certificates of deposits and Federal Home Loan Bank, or FHLB, advances. Average interest-bearing liabilities increased to \$789.3 million from \$642.6 million, up 23 percent from last year. The rate paid on average interest-bearing liabilities fell to 2.84% from 3.97% last year. The decline in the rate paid outpaced the added expense of more interest-bearing liabilities resulting in a reduction in interest expense of \$3.1 million. Together, the decline in interest expense exceeded the decline in interest income resulting in a 1 percent increase in net interest income for 2008.

The net interest margin (on a taxable equivalent basis) was 4.08% in 2008 compared with 4.64% in 2007. The decreased net interest margin for 2008 compared to 2007 resulted primarily from loan yields decreasing more and faster than deposit rates and a decline in the percentage relationship of noninterest-bearing demand deposits to total interest-bearing liabilities.

Throughout 2008, the FRB lowered the federal funds rate seven times by approximately 400 basis points. In contrast, our net interest margin declined 56 basis points for the 2008 year. A decrease in interest rates generally has a more immediate impact on our variable rate loans. Marketplace deposit rates generally respond more slowly to changes in interest rates and limit our ability to reduce rates quickly. Our interest rate risk management practices are designed to create stability in our net interest margin; however, we anticipate that our net interest margin will continue to experience downward pressure due to marketplace deposit rates.

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The following table presents the average balances, the amount of interest earned or incurred and the applicable taxable equivalent yields for interest-earning assets and the costs of interest-bearing liabilities that generate net interest income:

**Average Balance Sheet and Analysis of Net Interest Income**

	December 31, 2008			Year Ended December 31, 2007			December 31, 2006		
	Average Amount	Interest Income/ Expense	Weighted Average Yield/ Rate	Average Amount	Interest Income/ Expense	Weighted Average Yield/ Rate	Average Amount	Interest Income/ Expense	Weighted Average Yield/ Rate
<b>Assets:</b>									
Federal funds sold and securities purchased under agreements to resell	\$ 2,715	\$ 28	1.05%	\$ 2,056	\$ 99	4.83%	\$ 1,661	\$ 86	5.18%
Due from banks-interest-bearing	59	2	2.56%	11,329	26	0.23%	2,538	131	5.16%
Securities available-for-sale	221,623	11,684	5.44%	176,259	9,236	5.40%	96,104	5,087	5.29%
Securities held-to-maturity			%				2,307	96	4.16%
Loans (1) (2)	785,371	51,521	6.56%	683,074	56,389	8.26%	351,882	30,100	8.55%
<b>Total interest earning assets</b>	<b>1,009,768</b>	<b>63,235</b>	<b>6.26%</b>	<b>872,718</b>	<b>65,750</b>	<b>7.57%</b>	<b>454,492</b>	<b>35,500</b>	<b>7.81%</b>
Noninterest earning assets:									
Cash and due from banks demand	19,170			3,798			14,066		
Other assets	118,030			78,150			22,879		
Allowance for loan losses and net unrealized gain/loss on securities available-for-sale	(12,131)			(7,630)			(5,933)		
<b>Total assets</b>	<b>\$ 1,134,837</b>			<b>\$ 947,036</b>			<b>\$ 485,504</b>		
<b>Liabilities and shareholders equity:</b>									
Interest-bearing deposits:									
Checking	\$ 47,526	215	0.45%	\$ 39,186	328	0.84%	\$ 30,737	\$ 221	0.72%
Money market and savings	204,351	3,627	1.77%	223,509	7,185	3.21%	124,319	3,439	2.77%
Time certificates of deposit:									
\$100,000 or more	209,483	5,939	2.84%	165,319	7,076	4.28%	83,993	3,600	4.29%
Under \$100,000	106,851	3,616	3.38%	82,796	3,732	4.51%	23,708	838	3.53%
<b>Total time certificates of deposit</b>	<b>316,334</b>	<b>9,555</b>	<b>3.02%</b>	<b>248,115</b>	<b>10,808</b>	<b>4.36%</b>	<b>107,701</b>	<b>4,438</b>	<b>4.12%</b>
<b>Total interest-bearing deposits</b>	<b>568,211</b>	<b>13,397</b>	<b>2.36%</b>	<b>510,810</b>	<b>18,321</b>	<b>3.59%</b>	<b>262,757</b>	<b>8,098</b>	<b>3.08%</b>
FHLB advances	148,748	5,583	3.75%	61,806	3,003	4.87%	13,991	700	5.00%
Junior subordinated debentures	26,675	1,755	6.58%	25,057	1,676	6.69%	15,464	1,546	10.00%
Federal funds purchased and securities sold under agreements to repurchase	45,676	1,718	3.76%	45,000	2,506	5.57%	33,108	1,808	5.46%
<b>Total interest-bearing liabilities</b>	<b>789,310</b>	<b>22,453</b>	<b>2.84%</b>	<b>642,673</b>	<b>25,506</b>	<b>3.97%</b>	<b>325,320</b>	<b>12,152</b>	<b>3.74%</b>
Noninterest-bearing liabilities:									
Noninterest-bearing demand deposits	190,939			193,630			114,701		
Other liabilities	15,901			9,235			4,728		
Shareholders equity	138,687			101,498			40,755		
<b>Total liabilities and shareholders equity</b>	<b>\$ 1,134,837</b>			<b>\$ 947,036</b>			<b>\$ 485,504</b>		
<b>Net interest income</b>		<b>\$ 40,782</b>			<b>\$ 40,244</b>			<b>\$ 23,348</b>	

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Net interest margin (tax equivalent)	4.08%	4.64%	5.14%
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- (1) The average balance of nonperforming loans has been included in loans.
- (2) Yields and amounts earned on loans include loan fees of \$0.8 million, \$3.0 million and \$1.8 million for the years ended December 31, 2008, 2007 and 2006, respectively.

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Net interest income is affected by changes in the level and mix of average earning assets and average interest-bearing funds. The changes between periods in these balances are referred to as balance changes. The effect on net interest income from changes in average balances is measured by multiplying the change in the average balance between the current period and the prior period by the prior period average rate. Net interest income is also affected by changes in the average rate earned or paid on earning assets and interest-bearing funds and these are referred to as rate changes. The effect on net interest income from changes in average rates is measured by multiplying the change in the average rate between the current period and the prior period by the prior period average balance. Changes attributable to both rate and volume are allocated on a pro rata basis to the change in average volume and the change in average rate.

**Increase (Decrease) in Net Interest Income/Expense Due to Change in Average Volume and Average Rate (1)**

	2008 vs 2007		Net Increase (Decrease)	2007 vs 2006		Net Increase (Decrease)
	Increase (Decrease) due to: Volume	Rate		Increase (Decrease) due to: Volume	Rate	
(Dollars in thousands)						
<b>Interest Income:</b>						
Federal funds sold	\$ 32	\$ (103)	\$ (71)	\$ 19	\$ (6)	\$ 13
Due from banks interest-bearing	(26)	2	(24)	20	(125)	(105)
Securities available-for-sale	2,732	(284)	2,448	4,200	(51)	4,149
Securities held-to-maturity				(96)		(96)
Loans (2)	8,483	(13,351)	(4,868)	27,341	(1,052)	26,289
<b>Total interest-earning assets</b>	<b>11,221</b>	<b>(13,736)</b>	<b>(2,515)</b>	<b>31,484</b>	<b>(1,234)</b>	<b>30,250</b>
<b>Interest Expense:</b>						
<b>Interest-bearing deposits:</b>						
Checking	70	(183)	(113)	70	37	107
Money market and savings	(615)	(2,943)	(3,558)	3,189	557	3,746
<b>Time certificates of deposit:</b>						
\$100,000 or more	1,890	(3,027)	(1,137)	1,836	(1,704)	132
Under \$100,000	1,087	(1,203)	(116)	5,050	1,188	6,238
<b>Total time certificates of deposit</b>	<b>2,977</b>	<b>(4,230)</b>	<b>(1,253)</b>	<b>6,886</b>	<b>(516)</b>	<b>6,370</b>
<b>Total interest-bearing deposits</b>	<b>2,432</b>	<b>(7,356)</b>	<b>(4,924)</b>	<b>10,145</b>	<b>78</b>	<b>10,223</b>
FHLB advances	4,241	(1,661)	2,580	2,383	(80)	2,303
Junior subordinated debentures	109	(30)	79	959	(829)	130
Federal funds purchased and securities sold under agreements to repurchase	38	(826)	(788)	649	49	698
<b>Total interest-bearing liabilities</b>	<b>6,820</b>	<b>(9,873)</b>	<b>(3,053)</b>	<b>14,136</b>	<b>(782)</b>	<b>13,354</b>
<b>Net interest income</b>	<b>\$ 4,401</b>	<b>\$ (3,863)</b>	<b>\$ 538</b>	<b>\$ 17,348</b>	<b>\$ (452)</b>	<b>\$ 16,896</b>

- (1) The change in interest income or interest expense that is attributable to both changes in average balance and average rate has been allocated to the changes due to (i) average balance and (ii) average rate in proportion to the relationship of the absolute amounts of changes in each.
- (2) Table does not include interest income that would have been earned on nonaccrual loans.

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### ***Provision for loan losses***

We have experienced positive asset quality measures low levels of delinquencies, low levels of nonaccrual loans, and low levels of net charge-offs for an extended period of time. As a result, there was no provision for loan losses for the year ended December 31, 2007. However, due to the current economic climate, increased charge-offs and our ongoing evaluation of credit quality in our loan portfolio, we recorded a provision for loan losses of \$1,150,000 for the year ended December 31, 2008.

Increased provisions for loan losses may be required in the future based on loan growth, the effect changes in economic conditions, such as inflation, unemployment, market interest rate levels, and real estate values may have on the ability of our borrowers to repay their loans, and other negative conditions specific to our borrowers' businesses.

### ***Noninterest income***

Noninterest income was \$5.4 million for 2008 compared with \$8.0 million for 2007.

Service charges on deposit accounts were \$2.8 million for 2008, up 77 percent from \$1.6 million for 2007. The increase in deposit activity fees in 2008 was due primarily to an increase in customers utilizing fee-generating services such as cash management and on-line banking services and a smaller percentage of fees waived.

Earnings on cash surrender value of life insurance were \$424,000 in 2008 compared to \$343,000 for 2007. The increase in earnings reflects a higher average cash surrender value during 2008 as compared to 2007.

Due to decreased demand in the secondary markets, the staffing in our Commercial Mortgage Division was reduced in the first quarter of 2008 and loan sale activity and loan commissions from brokered loans declined in 2008 versus 2007. Commercial and multifamily mortgages originated and sold in 2008 totaled approximately \$19.9 million. Gains from these sales were \$17,000. Commercial and multifamily mortgages originated and sold in 2007 totaled approximately \$76.1 million. Gains from these sales were \$1.79 million. Loan commissions on brokered commercial and multifamily mortgages were \$207,500 in 2008 compared to \$224,000 in 2007. We do not expect the demand in the secondary markets will increase in the near term. Similarly, due to decreased demand in the U.S. Small Business Administration, or SBA, secondary markets, we reduced the staffing in our SBA department in the first quarter of 2009. SBA loans originated and sold in 2008 and 2007 totaled approximately \$3.8 million and \$2.1 million. Gains from these sales were \$158,000 and \$98,000, respectively. Loan commissions on SBA 504 loans were \$69,500 and \$185,000 for 2008 and 2007. We do not expect the demand in the SBA secondary markets will increase in the near term.

Noninterest income also includes a recognized pre-tax gain of \$2.4 million from the sale of the bank charters of Mercantile and South Bay to United Central Bank and The Independent Bankers Bank, respectively, during the second quarter of 2007.

Other income includes gains from non-hedge derivatives of \$1,042,000 in 2008 versus \$224,000 in 2007. The increase in 2008 is due to the decrease in market rates throughout 2008 which produced gains on our interest rate floor contracts. Our last derivative contract expired in December 2008.

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The following table presents a summary of noninterest income:

	<b>For the years ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
	<b>(in thousands)</b>	
Service charges on deposit accounts	\$ 2,756	\$ 1,557
Earnings on cash surrender value of life insurance	424	343
Commissions on brokered loans	277	409
Net gain on sale of loans	175	1,790
Net gain (loss) on sale of securities	(22)	89
Net servicing fees	87	58
Gain on sale of bank charters		2,375
Gain on derivatives	1,042	224
Other income	642	1,202
<b>Total noninterest income</b>	<b>\$ 5,381</b>	<b>\$ 8,047</b>

***Noninterest expense***

Noninterest expense for 2008 was \$35.1 million down 5.2 percent from \$37.0 million for 2007. The decrease in 2008 primarily reflects a decrease in merger and integration-related expenses, as well as a loss on the early termination of debt incurred in 2007. A key measure tracked by us is the efficiency ratio. This ratio measures noninterest expense, excluding amortization of intangibles, to the sum of net interest income and noninterest income. Gains or losses from securities transactions are excluded from noninterest income. The efficiency ratio was 73.45 percent for 2008 compared with 63.18 percent for 2007.

The following table presents a summary of noninterest expense:

	<b>For the years ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
	<b>(in thousands)</b>	
Salaries and employee benefits	\$ 18,526	\$ 17,514
Premises and equipment	4,813	4,040
Data processing	1,313	1,047
Legal, audit, and other professional services	1,962	1,353
Printing, stationary, and supplies	691	490
Telephone	752	532
Directors fees	434	514
Advertising and marketing	1,324	1,029
Postage	199	159
Amortization of intangibles	1,190	1,029
Integration and conversion expenses		5,443
Loss on early termination of debt		1,564
Other expenses	3,901	2,331
<b>Total noninterest expense</b>	<b>\$ 35,105</b>	<b>\$ 37,045</b>

We launched an integration program shortly after the mergers which combined our three banks under a single brand First California Bank. We recognized integration and conversion pre-tax charges of \$5.44 million in 2007. These charges primarily include \$2.3 million severance for the former chief executive officer, chief financial officer, and chief credit officer of National Mercantile and \$1.8 million to exit National Mercantile technology. In connection with the integration of the banks, we installed the existing First California Bank



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technology in all Mercantile and South Bay offices and incurred selective staff reductions. We believe the integration program created operating efficiencies and eliminated redundancies.

In January 2007, we elected to redeem all of the \$15.5 million outstanding 10.25% fixed rate junior subordinated debentures due July 25, 2031. The debentures were redeemable at a price of 107.6875% of the principal amount outstanding plus accrued interest. As a result, we incurred a pre-tax charge of \$1.6 million in the first quarter of 2007 which is reflected in our 2007 non-interest expense.

To redeem the July 2031 debentures, we issued \$16.5 million 6.80% fixed/floating rate junior subordinated debentures due March 15, 2037. For the first five years, the interest rate is fixed. Thereafter, the interest rate resets quarterly to the 3-month LIBOR rate plus 1.60%. These debentures are redeemable at par, in whole or in part, any time on or after March 15, 2012. We expect to save in the initial 5-year period approximately \$500,000 per year in pre-tax interest expense from the early redemption of the former and the issuance of the new debentures.

### ***Income taxes***

The provision for income taxes was \$3.5 million for 2008 compared with \$4.2 million for 2007. The effective tax rate was 35.8 percent for 2008 compared with 37.0 percent for 2007.

The combined federal and state statutory rate for 2008 was 42.05 percent and for 2007 was 41.15 percent. The effective tax rates were less than the combined statutory tax rate primarily as a result of excluding from taxable income interest income on municipal securities and the earnings on the cash surrender value of life insurance.

### **Financial position September 30, 2009 compared with December 31, 2008**

#### ***Lending and credit risk***

We provide a variety of loan and credit-related products and services to meet the needs of borrowers primarily located in the six Southern California counties where our branches are located. Business loans, represented by commercial real estate loans, commercial loans and construction loans comprise the largest portion of the loan portfolio. Consumer or personal loans, represented by home mortgage, home equity and installment loans, comprise a smaller portion of the loan portfolio.

Credit risk is the risk to earnings or capital arising from an obligor's failure to meet the terms of any contract with us or otherwise to perform as agreed. All activities in which success depends on counterparty, issuer, or borrower performance have credit risk. Credit risk is present any time we extend, commit or invest funds; whenever we enter into actual or implied contractual agreements for funds, whether on or off the balance sheet, credit risk is present.

All categories of loans present credit risk. Major risk factors applicable to all loan categories include changes in international, national and local economic conditions such as interest rates, inflation, unemployment levels, consumer and business confidence and the supply and demand for goods and services.

Commercial real estate loans rely upon the cash flow originating from the underlying real property. Commercial real estate is a cyclical industry; general economic conditions and local supply and demand affect the commercial real estate industry. In the office sector, the demand for office space is highly dependent on employment levels. Consumer spending and confidence affect the demand for retail space and the levels of retail rents in the retail sector. The industrial sector has exposure to the level of exports, defense spending and inventory levels. Vacancy rates, location and other factors affect the amount of rental income for commercial property. Tenants may relocate, fail to honor their lease or go out of business. In the multifamily residential sector, the affordability of ownership housing, employment conditions and the vacancy of existing inventory

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heavily influences the demand for apartments. Population growth or decline and changing demographics, such as increases in the level of immigrants or retirees, are also factors influencing the multifamily residential sector.

Construction loans provide developers or owners with funds to build or improve properties; developers ultimately sell or lease these properties. Generally, construction loans involve a higher degree of risk than other loan categories because they rely upon the developer's or owner's ability to complete the project within specified cost and time limits. Cost overruns can cause the project cost to exceed the project sales price or exceed the amount of the committed permanent funding. Any number of reasons, such as poor weather, material or labor shortages, labor difficulties, or redoing substandard work to pass inspection, can delay construction projects. Furthermore, changes in market conditions or credit markets may affect a project's viability once completed.

Commercial loans rely upon the cash flow originating from the underlying business activity of the enterprise. The manufacture, distribution or sale of goods or sale of services are not only affected by general economic conditions but also by the ability of the enterprise's management to adjust to local supply and demand conditions, maintain good labor, vendor and customer relationships, as well as market, price and sell their goods or services for a profit. Customer demand for goods and services of the enterprise may change because of competition or obsolescence.

Home mortgages and home equity loans and lines of credit use first or second trust deeds on a borrower's real estate property, typically their principal residence, as collateral. These loans depend on a person's ability to regularly pay the principal and interest due on the loan and, secondarily, on the value of real estate property that serves as collateral for the loan. Generally, home mortgages involve a lower degree of risk than other loan categories because of the relationship of the loan amount to the value of the residential real estate and a person's reluctance to forego their principal place of residence. General economic conditions and local supply and demand, however, affect home real estate values. Installment loans and credit card lines also depend on a person's ability to regularly pay principal and interest on a loan; however, generally these are unsecured loans or, if secured, the collateral value can rapidly decline as is the case for automobiles. A person's ability to service debt is highly dependent upon their continued employment or financial stability. Job loss, divorce, illness and bankruptcy are just a few of the risks that may affect a person's ability to service their debt.

Our appraisal policy with respect to real estate secured loans is to obtain an appraisal for the following extensions of credit:

1. All business loans in excess of \$1,000,000 where real estate was taken as collateral but where the sale or rental of the real estate is not the primary source of repayment;
2. All business loans in excess of \$250,000 where real estate was taken as collateral and where the sale or rental of the real estate is the primary source of repayment; and
3. All real estate secured loans in excess of \$250,000.

For all new loans and loans being renewed or extended that require an appraisal, a current appraisal is required, which means an appraisal report with an as of date and a property inspection date that are not more than six months before the date of the loan funding. Updated appraisal reports are obtained only in accordance with Uniform Standards of Professional Appraisal Practice guidelines or, in order to determine the useful life of an existing appraisal. In general, the useful life of an appraisal, regardless of amount, is deemed to be the life of the originating loan, unless:

- A. There has been a deterioration in the borrower's performance and there is an increasing likelihood of a forced liquidation of the property and the existing appraisal is older than two years, and/or
- B. There has been deterioration in the property's value due to a significant depreciation in local real estate values, lack of maintenance, changes in zoning, environmental contamination, or other circumstances.

Since the risks in each category of loan changes based on a number of factors, it is not possible to state whether a particular type of lending carries with it a greater or lesser degree of risk at any specific time in the economic



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cycle. Generally, in a stabilized economic environment, home mortgage loans have the least risk, followed by home equity loans, multifamily property loans, commercial property loans, commercial loans and lines and finally construction loans. However, this ordering may vary from time to time and the degree of risk from the credits with the least risk to those with the highest risk profile may expand or contract with the general economy.

We manage credit risk through Board approved policies and procedures. At least annually, the Board reviews and approves these policies. Lending policies provide us with a framework for consistent loan underwriting and a basis for sound credit decisions. Lending policies specify, among other things, the parameters for the type or purpose of the loan, the required debt service coverage and the required collateral requirements. Credit limits are also established and certain loans require approval by the Directors Loan Committee. The Directors Audit Committee also engages a third party to perform a credit review of the loan portfolio to ensure compliance with policies and assist in the evaluation of the credit risk inherent in the loan portfolio.

**Loans**

Loans increased \$152.4 million, or 19 percent, to \$940.9 million at September 30, 2009 from \$788.4 million at December 31, 2008. This increase includes the effect of the reclassification of \$31.4 million of loans held-for-sale. Loan growth was primarily the result of \$101 million of loans we acquired in connection with the FDIC-assisted 1st Centennial Bank transaction.

<i>(in thousands)</i>	At September 30, 2009	At December 31, 2008
Commercial mortgage	\$ 365,540	\$ 302,016
Commercial loans and lines of credit	250,422	228,958
Multifamily mortgage	134,096	51,607
Construction and land development	94,721	133,054
Home mortgage	51,747	45,202
Home equity loans and lines of credit	38,638	22,568
Installment and credit card	5,687	5,016
Total loans	940,851	788,421
Allowance for loan losses	(12,137)	(8,048)
Loans, net	\$ 928,714	\$ 780,373
Loans held-for-sale	\$	\$ 31,401

The loan categories above are derived from bank regulatory reporting standards for loans secured by real estate; however, a portion of the mortgage loans above are loans that we consider to be a commercial loan for which we have taken real estate collateral as additional support or from an abundance of caution. In these instances, we are not looking to the real property as its primary source of repayment, but rather as a secondary or tertiary source of repayment.

Loans held-for-sale at December 31, 2008 represented performing multifamily residential loans originated from January 2008 to December 2008 at interest rates which approximated market rates. In the first quarter of 2009, we identified two prospective buyers for these loans and they undertook their purchase due diligence shortly after year-end. We accepted a bid from one of these buyers in March subject to completion of due diligence. This prospective buyer aggregates loans and re-sells them to FNMA. Subsequent to accepting the bid, FNMA changed its underwriting and documentation standards and, while we did work with the prospective buyer and our borrowers to meet these new standards, we ultimately determined not to pursue the sale and returned these performing, multi-family mortgage loans to our regular loan portfolio. Even though these loans are performing, buyers in the current marketplace would require a yield higher than the current interest rates on these loans. We recognized a market value loss of \$709,000 in noninterest expense for the second quarter of 2009 to write down these loans to the lower of cost or market value.

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Commercial mortgage loans, the largest segment of our portfolio, were 39 percent of total loans at September 30, 2009 compared with 38 percent at December 31, 2008. We had 370 commercial mortgage loans with an average balance of \$991,000 at September 30, 2009 compared to 323 commercial mortgage loans with an average balance of \$938,000 at December 31, 2008. Many different commercial property types collateralize our commercial mortgage loans. Our top three categories have been office, industrial, and retail, representing approximately 66 percent of commercial mortgage loans. In addition, most of our commercial property lending is in the six Southern California counties where our branches are located. The following is a table of our commercial mortgage lending by county.

<b>Commercial mortgage loans by region/county</b>	<b>At</b>	<b>At</b>
<i>(in thousands)</i>	<b>September 30,</b>	<b>December 31,</b>
	<b>2009</b>	<b>2008</b>
<b>Southern California</b>		
Los Angeles	\$ 180,738	\$ 154,669
Orange	28,377	31,808
Ventura	93,613	87,770
Riverside	22,063	8,549
San Bernardino	17,653	9,834
San Diego	16,064	2,966
Santa Barbara	237	236
<b>Total Southern California</b>	<b>358,745</b>	<b>295,832</b>
<b>Northern California</b>		
Alameda	330	342
Contra Costa	416	434
Fresno	2,489	2,512
Imperial	373	
Kern	1,059	1,115
Madera	562	561
Placer	627	635
Sacramento	362	
Solano	280	285
Tulare	297	300
<b>Total Northern California</b>	<b>6,795</b>	<b>6,184</b>
<b>Total commercial mortgage</b>	<b>\$ 365,540</b>	<b>\$ 302,016</b>

The following table shows the distribution of our commercial mortgage loans by property type.

<b>Commercial mortgage loans by property type</b>	<b>At</b>	<b>At</b>
<i>(in thousands)</i>	<b>September 30,</b>	<b>December 31,</b>
	<b>2009</b>	<b>2008</b>
Industrial/warehouse	\$ 90,476	\$ 60,171
Office	79,392	59,183
Retail	70,214	57,799
Hotel	14,053	14,522
Mixed use	12,547	9,334
Assisted living	11,378	11,478
Medical	11,355	15,174
Self storage	10,345	10,081
Restaurant	9,848	11,636

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All other		55,932	52,638
Total commercial loans		\$ 365,540	\$ 302,016

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We generally underwrote commercial mortgage loans with a maximum loan-to-value of 70 percent and a minimum debt service coverage ratio of 1.25. Beginning in the third quarter of 2009 we changed the maximum loan-to-value to 60 percent and the minimum debt service coverage ratio to 1.35. We believe these changes to our loan origination policies were prudent given the current economic environment. The weighted average loan-to-value percentage of our commercial real estate portfolio is 57.9 percent and the weighted average debt service coverage ratio is 1.54 at September 30, 2009. These criteria may become more conservative depending on the type of property. We focus on cash flow; consequently, regardless of the value of the collateral, the commercial real estate project must provide sufficient cash flow, or alternatively the principals must supplement the project with other cash flow, to service the debt. We generally require the principals to guarantee the loan. We also stress-test commercial mortgage loans to determine the potential effect changes in interest rates, vacancy rates, and lease or rent rates would have on the cash flow of the project. Additionally, at least on an annual basis, we require updates on the cash flow of the project and, where practicable, we visit the properties.

Commercial loans represent the next largest category of loans and were 27 percent of total loans at September 30, 2009, down from 29 percent at December 31, 2008. We had 741 commercial loans with an average balance of \$337,000 at September 30, 2009 compared to 796 commercial loans with an average balance of \$288,000 at December 31, 2008. Unused commitments on commercial loans were \$43.0 million at September 30, 2009 compared with \$103.5 million at December 31, 2008. Working capital, equipment purchases or business expansion are the typical purposes for commercial loans. Commercial loans may be unsecured or secured by assets such as equipment, inventory, accounts receivables, and real property. Personal guarantees of the business owner may also be present. Additionally, these loans may also have partial guarantees from the SBA or other federal or state agencies. Broadly diversified business sectors with the largest sectors in real estate/construction, finance and insurance, healthcare, manufacturing and professional services comprise the commercial loan portfolio. Below is a table of our loans by business sector.

**Commercial loans by industry/sector**

<i>(in thousands)</i>	At September 30, 2009	At December 31, 2008
Services	\$ 68,683	\$ 56,298
Information	58,965	55,510
Real estate	58,929	54,200
Trade	27,137	24,865
Manufacturing	16,111	10,620
Healthcare	12,571	13,731
Transportation and warehouse	7,815	8,796
Other	211	4,938
<b>Total commercial loans</b>	<b>\$ 250,422</b>	<b>\$ 228,958</b>

We underwrite commercial loans with maturities not to exceed seven years and we generally require full amortization of the loan within the term of the loan. We underwrite traditional working capital lines for a 12 month period and have a 30-day out-of-debt requirement. Accounts receivable and inventory financing revolving lines of credit have an annual maturity date, a maximum advance rate, and an annual field audit for lines of \$200,000 or more. Third-party vendors perform field audits for our accounts receivable and inventory financing revolving lines of credit. The maximum advance rate for accounts receivable is 80 percent and the maximum advance rate for eligible inventory is 50 percent.

Construction and land loans represent 10 percent of total loans at September 30, 2009, down from 17 percent at December 31, 2008. At September 30, 2009, we had 39 projects with an average commitment of \$3,078,000 compared with 49 projects with an average commitment of \$3,442,000 at December 31, 2008. Construction loans represent single-family, multifamily and commercial building projects as well as land development loans. The decline in construction and land loans since the end of 2008 reflects principally the successful completion and sale of projects as well as the general reduction in new business activity. At

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September 30, 2009, 26 percent of these loans, or \$24.7 million, represent single-family residential construction projects; 12 percent, or \$11.2 million, were multi-family residential construction projects; 43 percent, or \$40.5 million, were commercial projects; and, 19 percent, or \$18.3 million, were land development projects.

Construction loans are typically short term, with maturities ranging from 12 to 18 months. For commercial projects, we have had a maximum loan-to-value requirement of 75 percent of the appraised value. For residential projects, the maximum loan-to-value has been 80 percent. Beginning in the third quarter of 2009 we changed the maximum loan-to-value to 70 percent for both commercial and residential projects. The weighted average loan-to-value ratio for our construction and land portfolio is 72.1 percent at September 30, 2009. At September 30, 2009, we have only eight projects for which we capitalize interest income. Capitalized interest income for the nine months ended September 30, 2009 was \$371,000 for these eight projects. At the borrower's expense, we use a third party vendor for funds control, lien releases and inspections. In addition, we regularly monitor the marketplace and the economy for evidence of deterioration in real estate values.

Below is a table of our construction and land loans by county.

**Construction and land loans by county**

<i>(in thousands)</i>	At September 30, 2009		At December 31, 2008	
	Commitment	Outstanding	Commitment	Outstanding
Los Angeles	\$ 51,317	\$ 46,136	\$ 91,254	\$ 66,390
Orange	6,872	6,670	8,550	3,650
Ventura	57,685	37,801	56,101	50,290
Riverside	4,155	4,114	2,984	2,958
San Bernardino			414	417
San Diego			736	738
Santa Barbara			8,611	8,611
Total construction and land loans	\$ 120,029	\$ 94,721	\$ 168,650	\$ 133,054

We are mindful of the recent developments in our marketplace and have supplemented our regular monitoring practices by updating project appraisals, re-evaluating estimated project marketing time and re-evaluating the sufficiency of the original loan commitment to absorb interest charges (i.e., interest reserves). We are also re-evaluating the ability of the project sponsor, where applicable, to successfully complete other projects funded by other institutions. In circumstances where the interest reserve was not sufficient, the project sponsor has made payments to us from their general resources or the project sponsor placed with us the proceeds from a portion of the project sales. While we believe that our monitoring practices are adequate, we cannot assure you that there will not be further delinquencies, lengthened project marketing time or declines in real estate values.

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Multifamily residential mortgage loans were 14 percent of total loans at September 30, 2009, up from 7 percent at December 31, 2008. We had approximately 156 multifamily loans with an average balance of \$862,000 at September 30, 2009, compared to approximately 68 multifamily loans with an average balance of \$755,000 at December 31, 2008. Apartments mostly located in our six-county market area serve as collateral for our multifamily mortgage loans. The entire amount of \$31.2 million, representing the loans held-for-sale which were transferred back to loans in the second quarter of 2009, were multifamily loans located in Los Angeles, Orange and Ventura counties. We underwrite multifamily mortgage loans in a fashion similar to commercial mortgage loans previously described. The weighted average loan-to-value percentage is 60.8% and the weighted average debt service coverage ratio is 1.28 of our multifamily portfolio at September 30, 2009. Below is a table of our multifamily mortgage loans by county.

Multifamily mortgage loans by region/county	At September 30, 2009	At December 31, 2008
<i>(in thousands)</i>		
<b>Southern California</b>		
Los Angeles	\$ 88,529	\$ 15,574
Orange	17,252	17,774
Ventura	7,712	3,842
San Bernardino	4,284	3,925
San Diego	5,078	3,016
Santa Barbara	1,135	
 Total Southern California	 123,990	 44,131
<b>Northern California</b>		
Alameda	799	806
Calaveras	1,378	1,387
Fresno	252	256
Kern	2,696	
Merced	674	681
Monterey	385	388
Mono	232	235
San Francisco	1,351	1,363
San Luis Obispo	500	504
Santa Clara	705	711
Santa Cruz	1,134	1,145
 Total Northern California	 10,106	 7,476
 Total multifamily mortgage	 \$ 134,096	 \$ 51,607

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The table below illustrates the distribution of our loan portfolio by loan size at September 30, 2009. We distributed all loans by loan balance outstanding except for construction loans, which we distributed by loan commitment. At September 30, 2009, 33 percent of our loans were less than \$1 million and 75 percent of our loans were less than \$5 million. We believe the high number of smaller-balance loans aids in the mitigation of credit risk; however, a prolonged and deep recession can affect a greater number of borrowers.

	September 30, 2009					
	Less than \$500,000	\$500,000 to \$999,999	\$1,000,000 to \$2,999,999	\$3,000,000 to \$4,999,999	\$5,000,000 to \$9,999,999	\$10,000,000 to \$25,000,000
Commercial mortgage	12%	15%	34%	12%	20%	7%
Commercial loans and lines of credit	24%	11%	33%	13%	10%	9%
Construction and land development	2%	3%	13%	26%	32%	24%
Multifamily mortgage	12%	31%	42%	0%	15%	0%
Home mortgage	30%	25%	19%	0%	26%	0%
Home equity loans and lines of credit	37%	24%	19%	20%	0%	0%
Installment and credit card	88%	12%	0%	0%	0%	0%
Totals	17%	16%	31%	11%	17%	8%
<i>Allowance for loan losses</i>						

We maintain an allowance for loan losses to provide for inherent losses in the loan portfolio. We establish the allowance through a provision charged to expense. We charge-off all loans judged to be uncollectible against the allowance while we credit any recoveries on loans to the allowance. We charge-off commercial and real estate loans—construction, commercial mortgage, and home mortgage—by the time their principal or interest becomes 120 days delinquent unless the loan is well-secured and in the process of collection. We charge-off consumer loans by the time they become 90 days delinquent unless they too are well-secured and in the process of collection. We also charge-off deposit overdrafts when they become more than 60 days old. We evaluate secured loans on a case by case basis to determine the ultimate loss potential to us subsequent to the sale of collateral. In those cases where the collateral value is less than the loan, we charge-off the loan to reduce the balance to a level equal to the net realizable value of the collateral.

Our loan policy provides procedures designed to evaluate and assess the risk factors associated with our loan portfolio, to enable us to assess such risk factors prior to granting new loans and to evaluate the sufficiency of the allowance for loan losses. We assess the allowance on a monthly basis and undertake a more critical evaluation quarterly. At the time of the monthly review, the Board of Directors will examine and formally approve the adequacy of the allowance. The quarterly evaluation includes an assessment of the following factors: any external loan review and any regulatory examination, estimated probable loss exposure on each pool of loans, concentrations of credit, value of collateral, the level of delinquency and nonaccruals, trends in the portfolio volume, effects of any changes in the lending policies and procedures, changes in lending personnel, present economic conditions at the local, state and national level, the amount of undisbursed off-balance sheet commitments, and a migration analysis of historical losses and recoveries for the prior eight quarters.

Our evaluation of the adequacy of the allowance for loan losses includes a review of individual loans to identify specific probable losses and also assigns estimated loss factors to specific groups or types of loans to calculate possible losses. In addition, we estimate the probable loss on previously accrued but unpaid interest. We refer to these as quantitative considerations. Our evaluation also considers subjective factors such as changes in local and regional economic and business conditions, financial improvement or deterioration in business sectors and industries, changes in lending practices, changes in personnel, changes in the volume and level of past due and nonaccrual loans and concentrations of credit. We refer to these as qualitative considerations.

We have historically experienced positive asset quality measures—low levels of delinquencies, low levels of nonaccrual loans, and low levels of net loan charge-offs—for an extended period of time. As a result, our 2008

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quarterly loan loss provisions were not significant. Our loan loss provisions for the third quarter and nine months ended September 30, 2009 were \$4.1 million and \$10.3 million, respectively. The larger loan loss provision in 2009 as compared with prior periods is based upon the factors considered in the following discussion.

Our assessment of the allowance for loan losses considered, among other things, estimated loss factors assigned to specific types of loans, changes and trends in the level of delinquencies, nonaccrual loans and loan charge-offs, changes in the value of collateral, changes in the local and regional economic and business conditions, the judgment of the bank regulatory agencies at the conclusion of their examination process with respect to information available to them during such examination process and the significant growth in loans arising from the FDIC-assisted 1st Centennial Bank transaction. More specifically, we revised upward, in the first quarter of 2009, our estimated loss factors for our qualitative considerations because of the following considerations.

We considered the increased trend in the level of our delinquencies, nonaccrual loans and loan charge-offs. Total past due loans and nonaccrual loans increased to \$49.6 million at September 30, 2009 from \$35.5 million at June 30, 2009, \$14.8 million at March 31, 2009 and \$11.5 million at December 31, 2008. Foreclosed property was \$6.1 million at September 30, 2009 compared with \$6.8 million at June 30, 2009, \$1.1 million at March 31, 2009 and \$0.3 million at December 31, 2008. Net loan charge-offs were \$3,935,000 for the third quarter of 2009, \$430,000 for the second quarter of 2009 and \$1,842,000 for the first quarter of 2009 compared with \$194,000 for the third quarter of 2008, \$15,000 for the second quarter of 2008 and \$570,000 for the first quarter of 2008. For the first nine months of 2009, net loan charge-offs were \$6.2 million compared with \$0.8 million for the first nine months of 2008.

We considered the prolonged marketing time and declining sales prices for our completed construction loan portfolio. Our construction and land loan portfolio was 10 percent of total loans at September 30, 2009 compared with 14 percent at March 31, 2009 and 17 percent at December 31, 2008. This loan portfolio declined principally from successful marketing and sales efforts, however, the continued disruption in the residential and commercial mortgage loan markets and the continued downward pressure on real estate values may adversely affect these loans.

We considered our entry into a new market area with new lending personnel arising from the FDIC-assisted 1st Centennial Bank transaction. This market area has experienced severe declines in real estate values, a large number of business and personal bankruptcies and several bank failures. We evaluated the credit risk of the loans acquired in the transaction and the loans originated since the transaction using the same standards as for our other loans; however, we are mindful the difficulties confronting businesses in this new market area may adversely affect these loans.

Finally, we considered the possible length and depth of the economic recession and the impact it might have on our borrowers and the judgment of the bank regulatory agencies at the conclusion of their examination process with respect to information available to them during such examination process.

As a result, we increased the allowance for loan losses to \$12.1 million at September 30, 2009 from \$8.0 million at December 31, 2008. The provision for loan losses was \$4.1 million for the third quarter of 2009, compared with \$0.3 million for the third quarter of 2008. The increased provision for loan losses in 2009 is primarily attributable to the increase in delinquency trends, nonaccrual loan levels and higher net loan charge-offs. For the first nine months of 2009, the provision for loan losses was \$10.3 million compared with \$1.0 million for the first nine months of 2008. Due to the current economic climate, we anticipate delinquency trends, nonaccrual loan levels, and net loan charge-offs to be higher than our 2008 and 2007 historical experience. As such, we anticipate our provision for loan losses will change from quarter to quarter based on our determination of the adequacy of the allowance for loan losses at each period end and that our total provision for loan losses will be higher than our 2008 and 2007 historical experience.

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The ratio of the allowance for loan losses to loans was 1.29 percent at September 30, 2009 compared with 1.02 percent at December 31, 2008. While we believe that our allowance for loan losses was adequate at September 30, 2009 and December 31, 2008, the determination of the allowance is a highly judgmental process and we cannot assure you that we will not further increase or decrease the allowance or that bank regulators will not require us to increase or decrease the allowance in the future. The following table presents activity in the allowance for loan losses:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(Dollars in thousands)			
Beginning balance	\$ 11,955	\$ 7,893	\$ 8,048	\$ 7,828
Provision for loan losses	4,117	300	10,296	950
Loans charged-off	(4,079)	(206)	(6,590)	(917)
Recoveries on loans charged-off	144	12	383	138
Ending balance	\$ 12,137	\$ 7,999	\$ 12,137	\$ 7,999
Allowance to loans	1.29%	1.02%	1.29%	1.02%
Net loans charged-off (annualized) to average loans	1.68%	0.10%	0.91%	0.13%

The following table presents the net loan charge-offs (recoveries) by loan type for the periods indicated.

<i>(in thousands)</i>	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2009		2008	
Construction	\$	853	\$	
Home mortgage		736		
Commercial loans & lines		3,364		216
Commercial mortgage		1,269		
Consumer		(15)		563
Total	\$	6,207	\$	779

Net loan charge-offs for the nine months ended September 30, 2009 were \$6.2 million compared with \$779,000 for the same period last year. In the 2009-third quarter, one loan relationship that had a \$2.0 million owner-occupied commercial mortgage and \$5.4 million of secured business loans abruptly discontinued business. We realized \$3.1 million of loan charge-offs on this loan relationship, \$2.6 million related to the secured business loans and \$0.5 million related to the owner-occupied commercial mortgage loan. In addition, we realized a \$0.5 million charge-off on a \$1.8 million nonaccrual commercial mortgage loan on which we began foreclosure in the 2009-third quarter. In the 2009-first quarter, we realized \$0.7 million of loan charge-offs related to five home mortgage loans. We purchased 110 home mortgage loans in 2005, 2006 and 2007 with an original unpaid principal balance of \$55.7 million. A national mortgage company services these loans for us. At September 30, 2009 there were 56 and \$23.5 million of these purchased home mortgage loans remaining. Also in the first half of 2009, we realized a \$0.6 million loan charge-off on a construction loan. The borrower could not overcome engineering issues and abandoned the project. In addition, in the 2009-second quarter, we received a \$0.2 million recovery on a consumer loan charged-off in the first quarter of 2008.

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The following table illustrates the significant net loan charge-offs for the nine months ended September 30, 2009:

Description	Construction and Land	Home Mortgage	Commercial Loans	Commercial Mortgage	Installment	Total
\$7.4 MM business loan relationship	\$	\$	\$ 2.6	\$ 0.5	\$	\$ 3.1
\$1.8 MM office building				0.5		0.5
\$55.7 MM purchased home mortgage portfolio		0.7				0.7
\$0.6 MM construction loan	0.6					0.6
\$0.6 MM consumer loan					(0.2)	(0.2)
All other loan charge-offs and recoveries, net	0.3		0.8	0.3	0.1	1.5
Net loan charge-offs 2009-nine month period	\$ 0.9	\$ 0.7	\$ 3.4	\$ 1.3	\$ (0.1)	\$ 6.2
Average loan balance for 2009-nine month period	\$ 112.7	\$ 81.0	\$ 226.1	\$ 489.2	\$ 4.3	\$ 913.3
Net loan charge-offs (annualized) to average loans	1.06%	1.15%	2.01%	0.35%	-0.47%	0.91%

Past due loans and foreclosed assets consist of the following:

	At September 30, 2009	At December 31, 2008
<i>(dollars in thousands)</i>		
Accruing loans past due 30 - 89 days	\$ 7,314	\$ 2,644
Accruing loans past due 90 days or more	\$ 2,970	\$ 429
Nonaccrual loans	\$ 39,330	\$ 8,475
Foreclosed assets	\$ 6,120	\$ 327

Nonaccrual loans and loans past due 90 days or more and accruing increased to \$42.3 million at September 30, 2009 from \$8.9 million at December 31, 2008. These non-performing loans, as a percentage of total loans, were 4.5 percent at the end of the third quarter compared with 1.1 percent at December 31, 2008. We added 12 loans or \$15.3 million to nonaccrual loans in the 2009 third quarter and we received pay-offs for 2 loans of \$2.7 million. Since the end of 2008, we added 21 loans or \$41.3 million to nonaccrual loans; we received pay-offs for 3 loans of \$2.9 million; and we foreclosed upon 3 loans for \$6.6 million and reclassified them to foreclosed property.

Our largest nonaccrual loan is a \$22.5 million completed office complex construction loan in Ventura County. This project began in the 2007 first quarter and consists of 31 buildings on 13 acres. We filed a notice of default in the 2009 third quarter. Nine units sold in 2008 and four units are presently in escrow. These escrows total approximately \$4.0 million and we expect them to close in the 2009-fourth quarter or 2010-first quarter. We obtained our most current appraisal in the 2008 fourth quarter and will pursue a new appraisal in the 2009 fourth quarter. Our most current appraisal indicates a loan-to-value of approximately 60 percent. Accordingly, we have no specific loss allowance for this loan.

Our next largest nonaccrual loan relationship represents two completed high-end homes in the coastal communities of Los Angeles County for \$7.6 million. We filed notices of default in the 2009 third quarter. Our most current appraisals indicate loan-to-value of approximately 80 percent. Accordingly, we have no specific loss allowance for this loan relationship.

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Our third largest nonaccrual loan relationship represents a \$1.6 million owner-occupied commercial mortgage loan and \$2.6 million of business loans to a borrower who abruptly discontinued business in the 2009 third quarter. These amounts are after charge-offs of \$0.5 million and \$2.6 million, respectively. We have, since the end of the 2009 third quarter, received proceeds of approximately \$0.5 million from the sale of equipment and collection of accounts receivable. While we are making every attempt to maximize proceeds from the collection of accounts receivable and the sale of assets, we cannot assure you that there will not be further loan charge-offs on this relationship. We estimated at September 30, 2009 a specific loss allowance of \$0.5 million for this loan relationship and this estimate may increase in subsequent periods.

We have one other nonaccrual loan in excess of \$1 million and that is a \$1.3 million office building in Riverside County. We filed a notice of default in the 2009 third quarter, realized a charge-off of \$0.5 million in the 2009 third quarter and anticipate completing our foreclosure in the 2009 fourth quarter or 2010 first quarter. We estimate that the carrying value of the loan approximates the net proceeds we will receive through the sale of the office building.

The following table presents the activity in our nonaccrual loan category for the periods indicated.

<i>(dollars in thousands)</i>	Three months ended September 30,				Nine months ended September 30,			
	2009		2008		2009		2008	
	# of Loans	\$ Amount	# of Loans	\$ Amount	# of Loans	\$ Amount	# of Loans	\$ Amount
Beginning balance	11	\$ 26,957	4	\$ 6,627	7	\$ 8,475	1	\$ 5,720
New loans added	12	15,280	4	2,098	21	41,253	7	3,005
Repurchase of SBA-guaranteed participation						136		
Loans transferred to foreclosed property	(1)	(119)			(3)	(6,612)		
Payoffs of existing loans	(2)	(2,729)			(3)	(2,938)		
Partial charge offs on existing loans						(323)		
Charge offs on existing loans			(1)	(83)	(2)	(560)	(1)	(83)
Payments on existing loans		(59)		(6)		(101)		(6)
Ending balance	20	\$ 39,330	7	\$ 8,636	20	\$ 39,330	7	\$ 8,636

Foreclosed property at September 30, 2009 consists of a \$6.0 million vacant land property and a \$0.1 million single family 1-4 property.

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The following table presents the activity of our foreclosed property for the periods indicated.

<i>(dollars in thousands)</i>	Three months ended September 30,				Nine months ended September 30,			
	2009		2008		2009		2008	
	# of Properties	\$ Amount	# of Properties	\$ Amount	# of Properties	\$ Amount	# of Properties	\$ Amount
Beginning balance	3	\$ 6,828	1	\$ 154	2	\$ 327	1	\$ 197
New properties added	1	126	1	119	3	6,893	1	119
Writedowns of existing properties	(1)	(136)			(1)	(151)		
Sales proceeds received	(1)	(698)			(2)	(949)		(43)
Ending balance	2	\$ 6,120	2	\$ 273	2	\$ 6,120	2	\$ 273

The allowance for losses on undisbursed commitments was \$97,000 and \$102,000 at September 30, 2009, and December 31, 2008, respectively. The allowance for losses on undisbursed commitments is included in accrued interest payable and other liabilities on the consolidated balance sheets.

The following table presents the allocation of the allowance for loan losses to each loan category and the percentage relationship of loans in each category to total loans:

<i>(in thousands)</i>	September 30, 2009		December 31, 2008	
	Allocation of the allowance by loan category	Percent of Loans in Category to Total loans	Allocation of the allowance by loan category	Percent of Loans in Category to Total loans
Commercial mortgage	\$ 3,585	39%	\$ 2,309	38%
Multifamily mortgage	1,463	14%	389	7%
Commercial loans	3,736	27%	2,328	29%
Construction loans	2,529	10%	1,986	17%
Home equity loans	337	4%	172	3%
Home mortgage	438	5%	334	6%
Installment and credit card	49	1%	40	
Subtotal	12,137	100%	7,558	100%
Unallocated			490	
Total	\$ 12,137	100%	\$ 8,048	100%

Unallocated amounts represent some of the qualitative considerations which we do not attribute to any one loan category. The decrease in the unallocated amount from December 31, 2008 to September 30, 2009 is due to attributing more of the qualitative factors to individual loan categories in the current period than was done historically. The amounts or proportions displayed above should not be interpreted as charge-offs to the allowance that we may incur. We based the amounts attributed to each loan category on the analysis described above.

We consider a loan to be impaired when, based on current information and events, we do not expect to be able to collect all amounts due according to the loan contract, including scheduled interest payments. Due to the size and nature of the loan portfolio, we determine impaired loans by periodic evaluation on an individual loan basis. The average investment in impaired loans was \$32.7 million for the nine months ended September 30, 2009 and \$10.6 million for the nine months ended September 30, 2008. Impaired loans were \$41.4 million at September 30, 2009 and \$34.5 million at December 31, 2008. Allowances for losses for individually impaired



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loans are computed in accordance with SFAS No. 114 Accounting by Creditors for Impairment of a Loan, and are based on either the estimated collateral value less estimated selling costs (if the loan is a collateral-dependent loan), or the present value of expected future cash flows discounted at the loan's effective interest rate. Of the \$41.4 million of impaired loans at September 30, 2009, \$3.7 million had specific allowances of \$0.6 million. Of the \$34.5 million of impaired loans at December 31, 2008, \$2.0 million had specific allowances of \$0.6 million.

***Investing, funding and liquidity risk***

Liquidity risk is the risk to earnings or capital arising from the inability to meet obligations when they come due without incurring unacceptable losses. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources as well as the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

We manage bank liquidity risk through Board approved policies and procedures. The Directors review and approve these policies at least annually. Liquidity risk policies provide us with a framework for consistent evaluation of risk and establish risk tolerance parameters. Management's Asset and Liability Committee meets regularly to evaluate liquidity risk, review and establish deposit interest rates, review loan and deposit in-flows and out-flows and reports quarterly to the Directors' Balance Sheet Management Committee on compliance with policies. The Directors' Audit Committee also engages a third party to perform a review of management's asset and liability practices to ensure compliance with policies.

Our primary source of funds continues to be core deposits (representing checking, savings and small balance retail certificates of deposit). At September 30, 2009, core deposits totaled \$802.0 million. At December 31, 2008, core deposits totaled \$503.8 million. The increase is a result of the core deposits acquired in connection with the FDIC-assisted 1st Centennial Bank transaction and organic deposit growth throughout our branch network. Core deposits represent a significant low-cost source of funds that support our lending activities and represent a key part of our funding strategy. We seek and stress the importance of both loan and deposit relationships with customers in our business plans.

Alternative funding sources include large balance certificates of deposits, brokered deposits, federal funds purchased from other institutions, securities sold under agreements to repurchase and borrowings. Total alternative funds used at September 30, 2009 declined to \$472.1 million from \$579.0 million at December 31, 2008.

In addition, we have lines of credit with other financial institutions providing for federal funds facilities up to a maximum of \$27.0 million. The lines of credit support short-term liquidity needs and we cannot use them for more than 30 consecutive days. These lines are unsecured, have no formal maturity date and can be revoked at any time by the granting institutions. There were no borrowings under these lines of credit at September 30, 2009 or December 31, 2008. We also have a \$13.4 million secured borrowing facility with the Federal Reserve Bank of San Francisco which had no balance outstanding at September 30, 2009 or December 31, 2008. In addition, we had approximately \$156.0 million of available borrowing capacity on the Bank's secured FHLB borrowing facility at September 30, 2009.

The primary sources of liquidity for the Company, on a stand-alone basis, include the dividends from the Bank and, historically, our ability to issue trust preferred securities and secure outside borrowings. The ability of the Company to obtain funds for its cash requirements, including payments on the junior subordinated debentures underlying our outstanding trust preferred securities and the dividend on our series B preferred stock, is largely dependent upon the Bank's earnings. The Bank is subject to restrictions under certain federal and state laws and regulations which limit its ability to transfer funds to the Company through intercompany loans, advances or cash dividends. The DFI under its general supervisory authority as it relates to a bank's capital requirements regulates dividends paid by state banks, such as the Bank. A state bank may declare a dividend without the approval of the DFI as long as the total dividends declared in a calendar year do not exceed either the retained earnings or the

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total of net profits for three previous fiscal years less any dividends paid during such period. During the first nine months of 2009, we received no dividends from the Bank. The amount of dividends available for payment by the Bank to the Company at September 30, 2009 without prior approval from bank regulators was \$14.9 million. The Company has \$8.7 million in cash on deposit with the Bank at September 30, 2009.

As of September 30, 2009 and December 31, 2008, we had \$26.7 million of junior subordinated debentures outstanding from two issuances of trust preferred securities. First California Capital Trust I's capital securities have an outstanding balance of \$16.5 million, mature on March 15, 2037, and are redeemable, at par, at the Company's option at any time on or after March 15, 2012. The securities have a fixed annual rate of 6.80% until January 15, 2012, and a variable annual rate thereafter, which resets quarterly, equal to the 3-month LIBOR rate plus 1.60% per annum. FCB Statutory Trust I's capital securities have an outstanding balance of \$10.3 million, mature on December 15, 2035, and are redeemable, at par, at the Company's option at any time on or after December 15, 2010. The securities have a fixed annual rate of 6.145% until December 15, 2010, and a variable annual rate thereafter, which resets quarterly, equal to the 3-month LIBOR rate plus 1.55% per annum.

### ***Securities***

We classify securities as available-for-sale for accounting purposes and, as such, report them at their fair, or market, values in our balance sheets. We use quoted market prices for fair values. We report as other comprehensive income or loss, net of tax changes in the fair value of our securities (that is, unrealized holding gains or losses) and carry these cumulative changes as accumulated comprehensive income or loss within shareholders' equity until realized.

Securities, at amortized cost, increased by \$94.4 million, or 44 percent, from \$216.4 million at December 31, 2008 to \$310.8 million at September 30, 2009. The increase is primarily due to the securities acquired in connection with the FDIC-assisted 1st Centennial Bank transaction, net of securities sold in the first nine months of 2009.

Net unrealized holding losses were \$8.5 million at September 30, 2009 and were \$14.0 million at December 31, 2008. As a percentage of securities, at amortized cost, net unrealized holding losses were 2.72 percent and 6.46 percent at the end of each respective period. Securities are comprised largely of U.S. government agency mortgage-backed securities, U.S. government agency and private-label collateralized mortgage obligations and U.S. government agency notes. We perform regularly an impairment analysis on our securities portfolio. Other-than-temporary impairment occurs when it is probable that we will be unable to collect all amounts due according to the contractual terms of the debt security not impaired at acquisition. When an other-than-temporary impairment occurs, we write-down the cost basis of the security to its fair value and establish a new cost basis. We recognize the write-down as a loss in our income statement if it is credit related. Other-than-temporary declines in fair value are assessed based on the duration the security has been in a continuous unrealized loss position, the severity of the decline in value, the rating of the security, the long-term financial outlook of the issuer, the expected future cash flows and our ability and intent on holding the securities until the fair values recover.

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The following table shows the gross unrealized losses and amortized cost of the Company's securities with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2009 and December 31, 2008. This table excludes the one security with an other-than-temporary impairment at September 30, 2009.

<i>(in thousands)</i>	Less Than 12 Months		At September 30, 2009 Greater Than 12 Months		Total	
	Amortized	Unrealized	Amortized	Unrealized	Amortized	Unrealized
	Cost	Losses	Cost	Losses	Cost	Losses
U.S. Treasury notes	\$ 7,739	\$ (3)	\$	\$	\$ 7,739	\$ (3)
U.S. government agency mortgage-backed securities	9,632	(38)			9,632	(38)
U.S. government agency collateralized mortgage obligations	5,045	(29)			5,045	(29)
Private-label collateralized mortgage obligations	3,959	(155)	32,138	(7,302)	36,097	(7,457)
Municipal securities			173	(2)	173	(2)
Other domestic debt securities			4,867	(2,612)	4,867	(2,612)
	\$ 26,375	\$ (225)	\$ 37,178	\$ (9,916)	\$ 63,553	\$ (10,141)

<i>(in thousands)</i>	Less Than 12 Months		At December 31, 2008 Greater Than 12 Months		Total	
	Amortized	Unrealized	Amortized	Unrealized	Amortized	Unrealized
	Cost	Losses	Cost	Losses	Cost	Losses
U.S. government agency mortgage-backed securities	\$ 3,611	\$ (46)	\$	\$	\$ 3,611	\$ (46)
U.S. government agency collateralized mortgage obligations	1,476	(5)			1,476	(5)
Private-label collateralized mortgage obligations	51,107	(15,205)	3,078	(288)	54,185	(15,493)
Municipal securities	7,360	(121)	173	(2)	7,533	(123)
Other domestic debt securities			4,941	(2,032)	4,941	(2,032)
	\$ 63,554	\$ (15,377)	\$ 8,192	\$ (2,322)	\$ 71,746	\$ (17,699)

The majority of unrealized losses at September 30, 2009 relate to a type of mortgage-backed security also known as private-label collateralized mortgage obligations, or CMOs. As of September 30, 2009, the fair value of these securities was \$36.8 million, representing 12 percent of our securities portfolio. Gross unrealized losses related to these securities amounted to \$9.4 million, or 20 percent of the aggregate cost basis of these securities as of September 30, 2009. The gross unrealized losses associated with these securities were primarily due to extraordinarily high investor yield requirements resulting from an extremely illiquid market, significant uncertainty about the future condition of the mortgage market and the economy, and continued deterioration in the credit performance of loan collateral underlying these securities, causing these securities to be valued at significant discounts to their acquisition cost. All of these securities had credit rating agency grades of triple-A at purchase and, except for five of these securities, various rating agencies have reaffirmed these securities' investment grade status as of September 30, 2009. The aggregate amortized cost basis of these five securities is \$27.7 million at September 30, 2009. One CMO with an amortized cost basis of \$6.3 million has an unrealized loss of \$1.9 million as of September 30, 2009. As of September 30, 2009, this security was rated triple-C by one rating agency. The current delinquency and default rates of the collateral for this security are above original expectations at the time of our purchase. We performed a discounted cash flow analysis for this security using the current month, last three month and last twelve month historical prepayment speed, the cumulative default

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rate and the loss severity rate to determine if there was other-than-temporary impairment as of September 30, 2009. A credit loss is the difference between our best estimate of the present value of the cash flows expected to be collected and the amortized cost basis of the security. Our discounted cash flow analysis resulted in a shortfall of estimated contractual cash flows to the tranche of this security owned by us. Therefore, for this security, we recognized an other-than-temporary impairment loss of \$565,000 as of June 30, 2009. We further determined that no additional other-than-temporary impairment loss was necessary for the third quarter of 2009. We will continue to monitor the credit performance of this security and if the performance deteriorates from current levels, we may recognize an additional other-than-temporary impairment loss in future periods.

We performed a similar discounted cash flow analysis as described above for the four other CMO securities rated less than investment grade at September 30, 2009. All four of these analyses indicated that there was no shortfall of future cash flows to the tranche of the securities owned by us. As we have the ability and intention to hold these securities for a sufficient amount of time, during which the fair value may recover to cost or the security matures, we did not deem these securities other-than-temporarily impaired at September 30, 2009.

The issuers of the remaining CMO securities in our portfolio have not, to our knowledge, established any cause for default on these securities and the credit performance of the underlying collateral is within expected parameters.

We also own one pooled trust preferred security, rated triple-A at purchase, with an amortized cost basis of \$4.9 million and an unrealized loss of \$2.6 million at September 30, 2009. The severe disruption in the market for these securities contributed to this unrealized loss. One credit rating agency has now rated the security single-A while another has rated the security triple-B-. The senior tranche owned by us has a significant collateral margin at September 30, 2009. There is minimal default experience within this security and there is no evidence of a shortage of contractual cash flows to the tranche of the security owned by us. As we have the ability and intention to hold this security for a sufficient amount of time, during which the fair value may recover to cost or the security matures, we do not consider this security to be other-than-temporarily impaired at September 30, 2009.

The remainder of our securities portfolio consists mainly of U.S. Treasury securities, U.S. government agency mortgage-backed securities, U.S. government agency collateralized mortgage obligations and various municipal securities. One of these municipal securities has been in a continuous unrealized loss position for twelve months or longer as of September 30, 2009. This security had a credit rating agency grade of triple-A upon purchase and various rating agencies have reaffirmed this securities long-term investment grade status of single-A at September 30, 2009. The aggregate gross unrealized loss for this security is \$2,000 at September 30, 2009. The issuer of this security has not, to our knowledge, established any cause for default on this security. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated. However, we have the ability and the intention to hold these securities for a sufficient amount of time, during which their fair values may recover to cost or the securities may mature. As such, we do not consider these securities to be other-than-temporarily impaired at September 30, 2009.

If current conditions in the mortgage markets and general business and economic conditions continue to deteriorate further, the fair value of our securities may decline further and we may experience other-than-temporary impairment on other securities in future periods, as well as further impairment of the one security deemed other-than-temporarily impaired. We will continue to evaluate our securities portfolio for other-than-temporary impairment at each reporting date and we can provide no assurance that there will not be an other-than-temporary impairment loss in future periods.

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The following table presents the other-than-temporary impairment activity related to credit loss, which is recognized in earnings, and the other-than-temporary impairment activity related to all other factors, which are recognized in other comprehensive income.

	Three Months Ended September 30, 2009		
	Impairment Related to Credit Loss	Impairment Related to Other Factors	Total Impairment
<i>(in thousands)</i>			
Recognized as of beginning of period	\$ 565	\$	\$ 565
Charges on securities for which OTTI was not previously recognized			
Recognized as of end of period	\$ 565	\$	\$ 565

**Deposits**

Deposits represent our primary source of funds for funding our lending activities. The following table presents the average balance and the average rate paid on each deposit category for the periods indicated:

	Nine months ended September 30,			
	2009		2008	
<i>(in thousands)</i>	Average Balance	Rate	Average Balance	Rate
Average core deposits				
Noninterest bearing checking	\$ 280,036		\$ 192,704	
Interest checking	77,096	0.29%	57,667	0.79%
Savings and money market accounts	256,122	1.08%	200,533	1.95%
Retail time deposits less than \$100,000	109,904	2.05%	57,427	4.91%
Total average core deposits	723,158	0.73%	508,331	1.42%
Average noncore deposits				
Brokered time deposits less than \$100,000	68,991	3.30%	25,584	3.91%
Time deposits of \$100,000 or more	281,588	1.85%	213,224	2.67%
Total average core and noncore deposits	\$ 1,073,737	1.19%	\$ 747,139	1.99%

The significant increase in deposits from the prior period is primarily due to the acquisition of \$270 million of non-brokered insured deposits in connection with the FDIC-assisted 1st Centennial Bank transaction. Interest paid on deposits decreased in 2009 compared to 2008 reflecting the significant decreases in market interest rates during the period.

Large balance certificates of deposit (that is, balances of \$100,000 or more) were \$282.4 million at September 30, 2009. Large balance certificates of deposit were \$215.5 million at December 31, 2008. A portion of these large balance time deposits represent time deposits placed by the State Treasurer of California with the Bank. The time deposit program is one element of a pooled investment account managed by the State Treasurer for the benefit of the State of California and all participating local agencies. The pooled investment account has approximately \$63 billion of investments of which approximately \$8 billion represent time deposits placed at various financial institutions. At September 30, 2009, and December 31, 2008, State of California time deposits placed with us, with original maturities of three months, were \$110.0 million. We believe that the State Treasurer will continue this program; we also believe, if it becomes necessary to replace these deposits, that we have sufficient alternative funding capacity or the ability to establish large balance certificates of deposit rates that will enable us to attract deposits in sufficient amounts. The remainder of time deposits represents time deposits accepted from customers in our market area.



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We use brokered time deposits to supplement our liquidity and achieve other asset liability management objectives. We include these deposits in the balance sheet line Certificates of deposit, under \$100,000 . Brokered deposits are wholesale time deposits in denominations less \$100,000 placed by rate sensitive customers that do not have any other significant relationship with us. Professionals operating under established investment criteria manage most wholesale funds and the brokered deposits are typically in amounts that are within the FDIC deposit insurance limit. As a result, these funds are generally very sensitive to credit risk and interest rates, and pose greater liquidity risk to a bank. They may refuse to renew the time deposits at maturity if higher rates are available elsewhere or if they perceive that creditworthiness is deteriorating. At September 30, 2009, we had brokered deposits of \$48.0 million, all of which have maturities within 12 months. At December 31, 2008, we had brokered deposits of \$115.0 million, of which \$95.7 million had maturities within 12 months.

At September 30, 2009, the scheduled maturities of time certificates of deposit in denominations of \$100,000 or more were as follows:

*(Dollars in thousands)*

Three months or less	\$ 157,070
Over three months to twelve months	92,329
Over twelve months	32,982
	\$ 282,381

**Borrowings**

Borrowings are comprised of FHLB advances and securities sold under agreements to repurchase. At September 30, 2009, we had \$149.0 million of borrowings outstanding, of which \$45.0 million was comprised of securities sold under agreements to repurchase and \$104.0 million of FHLB advances. For our FHLB advances, the following table presents the amounts and weighted average interest rates outstanding.

	Nine Months Ended September 30, 2009		Year Ended December 31, 2008	
	Federal Home Loan Bank Advances	Weighted average interest rate	Federal Home Loan Bank Advances	Weighted average interest rate
<i>(in thousands)</i>				
Amount outstanding at end of period	\$ 104,000	3.83%	\$ 122,000	3.88%
Maximum amount outstanding at any month-end during the period	\$ 122,000	3.88%	\$ 196,463	3.29%
Average amount outstanding during the period	\$ 113,465	3.85%	\$ 148,748	3.75%

The following table presents the maturities of FHLB term advances:

	At September 30, 2009			At December 31, 2008		
	Amount	Maturity Year	Weighted Average Interest Rate	Amount	Maturity Year	Weighted Average Interest Rate
<i>(dollars in thousands)</i>						
	\$ 5,500	2009	3.97%	\$ 28,500	2009	3.72%
	42,000	2010	3.70%	40,000	2010	3.82%
	13,000	2011	3.21%	11,000	2011	3.42%
	18,500	2012	4.03%	17,500	2012	4.12%
	17,500	2014	4.24%	17,500	2014	4.24%
	7,500	2017	4.07%	7,500	2017	4.07%
	\$ 104,000			\$ 122,000		



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The following table presents maturities of securities sold under agreements to repurchase:

<i>(dollars in thousands)</i>	At September 30, 2009			At December 31, 2008		
	Amount	Maturity Year	Weighted	Amount	Maturity Year	Weighted
			Average Interest Rate			Average Interest Rate
	\$ 15,000	2011	3.64%	\$ 15,000	2011	3.64%
	20,000	2013	3.60%	20,000	2013	3.60%
	10,000	2014	3.72%	10,000	2014	3.72%
	\$ 45,000			\$ 45,000		

**Capital resources**

The following table presents, at the dates indicated, certain information regarding the regulatory capital and required minimum amounts of regulatory capital for the period.

<i>(in thousands)</i>	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
September 30, 2009						
Total capital (to risk weighted assets)						
First California Financial Group, Inc.	\$ 134,680	12.47%	\$ 86,398	8.00%		
First California Bank	125,101	11.62%	86,159	8.00%	107,699	10.00%
Tier I capital (to risk weighted assets)						
First California Financial Group, Inc.	122,446	11.34%	43,199	4.00%		
First California Bank	112,867	10.48%	43,080	4.00%	64,619	6.00%
Tier I capital (to average assets)						
First California Financial Group, Inc.	122,446	8.81%	55,577	4.00%		
First California Bank	112,867	8.10%	55,756	4.00%	69,695	5.00%
December 31, 2008						
Total capital (to risk weighted assets)						
First California Financial Group, Inc.	\$ 147,680	16.62%	\$ 71,102	8.00%		
First California Bank	109,022	12.27%	71,110	8.00%	88,888	10.00%
Tier I capital (to risk weighted assets)						
First California Financial Group, Inc.	139,530	15.70%	35,551	4.00%		
First California Bank	100,873	11.35%	35,555	4.00%	53,333	6.00%
Tier I capital (to average assets)						
First California Financial Group, Inc.	139,530	12.77%	43,699	4.00%		
First California Bank	100,873	9.26%	43,568	4.00%	54,460	5.00%

We recognize that a strong capital position is vital to growth, continued profitability, and depositor and investor confidence. Our policy is to maintain sufficient capital at not less than the well-capitalized thresholds established by banking regulators.

**Financial Instruments with Off-Balance Sheet Risk**

In the normal course of business to meet the financing needs of our customers, we are party to financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit and the issuance of letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amounts recognized in our consolidated financial statements. The contract amounts of those instruments reflect the extent of involvement we have in particular classes of financial instruments.



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The contractual amount of commitments to extend credit and letters of credit written represents our exposure to credit loss in the event of nonperformance by the other party to these financial instruments. We use the same credit policies in making commitments and conditional obligations as we do for on-balance sheet instruments. We may or may not require collateral or other security to support financial instruments with credit risk, depending on our loan underwriting guidelines.

The following summarizes our outstanding commitments at September 30, 2009 and December 31, 2008:

<i>(in thousands)</i>	<b>September 30, 2009</b>	<b>December 31, 2008</b>
Financial instruments whose contract amounts contain credit risk:		
Commitments to extend credit	\$ 180,767	\$ 152,077
Commercial and standby letters of credit	1,597	444
	\$ 182,364	\$ 152,521

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. Total commitment amounts do not necessarily represent future cash requirements because many expire without use. We may obtain collateral for the commitment based on our credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income-producing properties.

Letters of credit written are conditional commitments issued by us to guarantee the performance of a customer to a third party. These guarantees support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. Credit risk for letters of credit is essentially the same as that for loan facilities to customers. When we deem collateral necessary, we will hold cash, marketable securities, or real estate as collateral supporting those commitments.

As of September 30, 2009 and December 31, 2008, we maintained an allowance for losses on undisbursed commitments of \$97,000 and \$102,000, respectively. The allowance is included in accrued interest payable and other liabilities on the consolidated balance sheets.

**Financial Position December 31, 2008 compared with December 31, 2007*****Lending and credit risk***

We provide a variety of loan and credit-related products and services to meet the needs of borrowers primarily located in the California counties of Ventura, Los Angeles and Orange. Business loans, represented by commercial real estate loans, commercial loans and construction loans comprise the largest portion of the loan portfolio. Consumer or personal loans, represented by home mortgage, home equity and installment loans, comprise a smaller portion of the loan portfolio.

Credit risk is the risk to earnings or capital arising from an obligor's failure to meet the terms of any contract with us or otherwise to perform as agreed. Credit risk is found in all activities in which success depends on counterparty, issuer, or borrower performance. Credit risk is present any time funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the balance sheet.

All categories of loans present credit risk. Major risk factors applicable to all loan categories include changes in international, national and local economic conditions such as interest rates, inflation, unemployment levels, consumer and business confidence, volatility in the stock market and real estate market and the supply and demand for goods and services.

Commercial real estate loans rely upon the cash flow originating from the underlying real property. Commercial real estate is a cyclical industry that is affected not only by general economic conditions but also by

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local supply and demand. In the office sector, the demand for office space is highly dependent on employment levels. In the retail sector, the demand for retail space and the levels of retail rents are affected by consumer spending and confidence. The industrial sector has exposure to the level of exports, defense spending and inventory levels. Vacancy rates, location and other factors affect the amount of rental income for commercial property. Tenants may relocate, fail to honor their lease or go out of business. In the multifamily residential sector, the demand for apartments is heavily influenced by the affordability of ownership housing, employment conditions and the vacancy of existing inventory. Population growth or decline and changing demographics, such as increases in the level of immigrants or retirees, are also factors influencing the multifamily residential sector.

Commercial loans rely upon the cash flow originating from the underlying business activity of the enterprise. The manufacture, distribution or sale of goods or sale of services are not only affected by general economic conditions but also by the ability of the enterprise's management to adjust to local supply and demand conditions, maintain good labor, vendor and customer relationships, as well as market, price and sell their goods or services for a profit. Customer demand for goods and services of the enterprise may change because of competition or obsolescence.

Construction loans provide developers or owners with funds to build or improve properties that will ultimately be sold or leased. Construction loans are generally considered to involve a higher degree of risk than other loan categories because they rely upon the developer's or owner's ability to complete the project within specified cost and time limits. Cost overruns can cause the project cost to exceed the project sales price or exceed the amount of the committed permanent funding. Construction projects also can be delayed for a number of reasons such as poor weather, material or labor shortages, labor difficulties, or substandard work that must be redone to pass inspection.

Home mortgages and home equity loans and lines of credit are secured by first or second trust deeds on a borrower's real estate property, typically their principal residence. These loans are dependent on a person's ability to regularly pay the principal and interest due on the loan and, secondarily, on the value of real estate property that serves as collateral for the loan. Home mortgages are generally considered to involve a lower degree of risk than other loan categories because of the relationship of the loan amount to the value of the residential real estate and a person's reluctance to forego their principal place of residence. Home real estate values however are not only affected by general economic conditions but also on local supply and demand. Installment loans and credit card lines are also dependent on a person's ability to regularly pay principal and interest on a loan; however, these loans generally are not secured by collateral or, if they are secured, the collateral value can rapidly decline as is the case for automobiles. A person's ability to service debt is highly dependent upon their continued employment or financial stability. Job loss, divorce, illness and bankruptcy are just a few of the risks that may affect a person's ability to service their debt.

Since the risks in each category of loan changes based on a number of factors, it is not possible to state whether a particular type of lending carries with it a greater or lesser degree of risk at any specific time in the economic cycle. In a stabilized economic environment, it is generally considered that home mortgage loans have the least risk, followed by home equity loans, multifamily property loans, commercial property loans, commercial loans and lines and finally construction loans. However, this ordering may vary from time to time and the degree of risk from the credits with the least risk to those with the highest risk profile may expand or contract with the general economy.

We manage credit risk through Board approved policies and procedures. These policies are reviewed and approved at least annually by the Directors. Lending policies provide us with a framework for consistent loan underwriting and a basis for sound credit decisions. Lending policies specify, among other things, the parameters for the type or purpose of the loan, the required debt service coverage and the required collateral requirements. Credit limits are also established and certain loans require approval by the Directors' Loan Committee. The Director's Audit Committee also engages a third party to perform a credit review of the loan portfolio to ensure compliance with policies and assist in the evaluation of the credit risk inherent in the loan portfolio.

**Table of Contents****Loans**

Total loans, excluding loans held for sale, increased 5.7 percent to \$788.4 million at December 31, 2008 from \$746.2 million at December 31, 2007. Loan growth is primarily the result of strong commercial and real estate lending in our immediate market areas.

The following table presents the portfolio of loans:

	2008	For the years ended December 31,			2004
		2007	2006	2005	
		(in thousands)			
Commercial mortgage	\$ 302,016	\$ 295,496	\$ 141,741	\$ 121,641	\$ 135,411
Commercial loans and lines of credit	228,958	189,638	105,574	89,261	98,163
Construction and land development	133,054	148,101	82,954	91,783	50,022
Multifamily mortgage	51,607	34,198	17,602	18,663	18,330
Home mortgage	45,202	46,193	8,206	9,970	9,405
Home equity loans and lines of credit	22,568	22,519	2,493	342	
Installment & credit card	5,016	10,034	7,148	6,898	2,516
Total loans	788,421	746,179	365,718	338,558	313,847
Allowance for loan losses	(8,048)	(7,828)	(4,740)	(4,468)	(3,511)
Loans, net	\$ 780,373	\$ 738,351	\$ 360,978	\$ 334,090	\$ 310,336
Loans held-for-sale	\$ 31,401	\$ 11,454	\$	\$	\$

The loan categories above are derived from bank regulatory reporting standards for loans secured by real estate; however, a portion of the mortgage loans above are loans that we consider to be commercial loans for which we have taken real estate collateral as additional support or from an abundance of caution. In these instances we are not looking to the real property as its primary source of repayment, but rather as a secondary or tertiary source of repayment.

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Commercial mortgage loans, the largest segment of our portfolio, were 38 percent of total loans at December 31, 2008, down from 40 percent at December 31, 2007. We had approximately 323 commercial mortgage loans with an average balance of \$938,000. Commercial mortgage loans are collateralized by many different commercial property types. Our top three categories have been office, industrial and retail. In addition, most of our commercial property lending is in Los Angeles, Orange and Ventura counties. The following is a table of our commercial mortgage lending by county.

Commercial mortgage loans by region/county	At December 31, 2008	At December 31, 2007
	(in thousands)	
<b>Southern California</b>		
Los Angeles	\$ 154,669	\$ 151,075
Orange	31,808	27,589
Ventura	87,770	95,397
Riverside	8,549	7,165
San Bernardino	9,834	5,858
Santa Barbara	236	240
San Diego	2,966	3,692
<b>Total Southern California</b>	<b>295,832</b>	<b>291,016</b>
<b>Northern California</b>		
Alameda	342	342
Contra Costa	434	1,262
Fresno	2,512	849
Kern	1,115	1,177
Madera	561	562
Placer	635	
Solano	285	288
Tulare	300	
<b>Total Northern California</b>	<b>6,184</b>	<b>4,480</b>
<b>Total commercial mortgage</b>	<b>\$ 302,016</b>	<b>\$ 295,496</b>

The following table shows the distribution of our commercial mortgage loans by property type at December 31, 2008.

Commercial mortgage loans by property type	At December 31, 2008
	(In thousands)
Industrial/warehouse	\$ 60,171
Office	59,183
Retail	57,799
Medical	15,174
Hotel	14,522
Restaurant	11,636
Assisted living	11,478
Self storage	10,081
Mixed use	9,334
All other	52,638

Total	\$ 302,016
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Commercial mortgage loans are underwritten with policy guidelines of a maximum loan-to-value of 70 percent and a minimum debt service coverage ratio of 1.25. These criteria may become more stringent depending

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on the type of property. At December 31, 2008, the weighted-average loan-to-value was 59 percent and debt service coverage ratio was 1.29 for our commercial mortgage loan portfolio. We focus on cash flow; consequently, regardless the value of the collateral, the commercial real estate project must provide sufficient cash flow, or alternatively the principals must supplement the project with other cash flow, to service the debt. We generally require the principals to guarantee the loan. We also stress-test commercial mortgage loans to determine the potential affect changes in interest rates, vacancy rates, and lease or rent rates would have on the cash flow of the project. Additionally, at least on an annual basis, we require updates on the cash flow of the project and, where practicable, we visit the properties.

Commercial loans represent the next largest category of loans and were 29 percent of total loans at December 31, 2008, up from 25 percent at December 31, 2007. We had approximately 796 commercial loans with an average balance of \$288,000. Commercial loans are made for the purpose of providing working capital, equipment purchases and business expansion. Commercial loans may be unsecured or secured by assets such as equipment, inventory, accounts receivables, and real property. Personal guarantees of the business owner may also be present. Additionally, these loans may also have partial guarantees from the SBA or other federal or state agencies. The commercial loan portfolio is made up of broadly diversified business sectors with the largest sectors in real estate/construction, finance and insurance, healthcare, manufacturing and professional services. Below is a table of our commercial loans by business sector.

Commercial loans by industry/sector	At	At
	December 31, 2008	December 31, 2007
	(in thousands)	
Services	\$ 56,298	\$ 38,748
Information	55,510	43,440
Real Estate	54,200	46,450
Trade	24,865	22,295
Healthcare	13,731	13,087
Manufacturing	10,620	16,644
Transportation and Warehouse	8,796	8,974
Other	4,938	
<b>Total commercial loans</b>	<b>\$ 228,958</b>	<b>\$ 189,638</b>

Commercial loans are underwritten with maturities not to exceed seven years and we generally require the loan to be fully amortized within the term of the loan. Traditional working capital lines are underwritten for a 12 month period and have a 30-day out-of-debt requirement. Accounts receivable and inventory financing revolving lines of credit have an annual maturity date, a maximum advance rate, and an annual field audit for lines of \$200,000 or more. Field audits are performed by third-party vendors. The maximum advance rate for accounts receivable is 75 percent and the maximum advance rate for eligible inventory is 25 percent.

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Construction loans were 17 percent of total loans at December 31, 2008 and 20 percent at December 31, 2007. At December 31, 2008, we had approximately 49 projects with an average commitment of \$3,442,000. Construction loans represent single-family, multi-family and commercial building projects as well as land development loans. At December 31, 2008, 23 percent of these loans, or \$30.5 million, represent single-family residential construction projects, 29 percent were multi-family residential construction projects, 35 percent were commercial projects and 13 percent were land development projects. Construction loans are typically short term, with maturities ranging from 12 to 18 months. For commercial projects, we have a maximum loan-to-value requirement of 70 percent of the Federal Institutions Reform Recovery and Enforcement Act ( FIRREA ) conforming appraised value. For residential projects, the maximum loan-to-value ranges from 80 percent on loans under \$500,000 to 70 percent on loans of \$1,000,000 or more. We require the borrower to provide in cash at least 20 percent of the cost of the project. At the borrower's expense, we use a third party vendor for funds control, lien releases and inspections. In addition, we regularly monitor the marketplace and the economy for evidence of deterioration in real estate values. Below is a table of our construction loans by county.

Construction loans by county	At December 31, 2008		At December 31, 2007	
	Commitment	Outstanding	Commitment	Outstanding
	(in thousands)			
Los Angeles	\$ 91,254	\$ 66,390	\$ 109,780	\$ 78,142
Orange	8,550	3,650	8,042	3,103
Ventura	56,101	50,290	53,055	37,152
Monterey			4,690	4,191
Riverside	2,984	2,958	6,873	5,227
San Bernardino	414	417	4,624	567
San Diego	736	738	752	736
Santa Barbara	8,611	8,611	21,055	18,983
<b>Total construction</b>	<b>\$ 168,650</b>	<b>\$ 133,054</b>	<b>\$ 208,871</b>	<b>\$ 148,101</b>

We are mindful of the recent developments in our marketplace and have supplemented our regular monitoring practices by updating project appraisals, re-evaluating estimated project marketing time and re-evaluating the sufficiency of the original loan commitment to absorb interest charges (i.e., interest reserves). We are also re-evaluating the project sponsor, where applicable, to successfully complete other projects funded by other institutions. In circumstances where the interest reserve was not sufficient the project sponsor has made payments to us from their general resources or the project sponsor placed with us the proceeds from a portion of the project sale. In addition, where supported by a current appraisal, loan-to-value requirements, and the ability of the project sponsor, we increased the project commitment. While we believe that our monitoring practices are adequate we cannot assure you that there will not be further delinquencies, lengthened project marketing time or declines in real estate values.

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Multifamily residential mortgage loans were 7 percent of total loans at December 31, 2008, up from 5 percent at December 31, 2007. We had approximately 68 multifamily loans with an average balance of \$755,000. Multifamily mortgage loans are collateralized by apartments mostly located in our tri-county market area. Multifamily mortgage loans are underwritten in a fashion similar to commercial mortgage loans described above. Below is a table of our multifamily mortgage loans by county.

Multi-family mortgage loans by region/county	At	At
	December 31, 2008	December 31, 2007
	(in thousands)	
<b>Southern California</b>		
Los Angeles	\$ 15,574	\$ 12,028
Orange	17,774	11,806
Ventura	3,842	3,295
Riverside		880
San Bernardino	3,925	2,861
San Diego	3,016	565
Total	44,131	31,435
<b>Northern California</b>		
Alameda	806	
Calaveras	1,387	1,409
Fresno	256	261
Mendocino		403
Merced	681	690
Monterey	388	
Mono	235	
San Francisco	1,363	
San Luis Obispo	504	
Santa Clara	711	
Santa Cruz	1,145	
Total	7,476	2,763
Total multifamily mortgage	\$ 51,607	\$ 34,198

The table below illustrates the distribution of our loan portfolio by loan size at December 31, 2008. All loans are distributed by loan balance outstanding except construction loans are distributed by loan commitment. At year-end 2008, nearly one-third of our loans were less than \$1 million; three-quarters of our loans were less than \$5 million. We believe the high number of smaller-balance loans aids in the mitigation of credit risk; however, a prolonged and deep recession can affect a greater number of borrowers.

Loan distribution by size	December 31, 2008					
	Less than \$500,000	\$500,000 to \$999,999	\$1,000,000 to \$2,999,999	\$3,000,000 to \$4,999,999	\$5,000,000 to \$9,999,999	\$10,000,000 to \$22,000,000
Commercial mortgage	12%	14%	36%	14%	15%	9%
Commercial loans and lines of credit	25%	10%	29%	16%	10%	10%
Construction and land development	2%	5%	13%	21%	41%	18%
Multifamily mortgage	15%	34%	39%	0%	12%	0%
Home mortgage	34%	30%	22%	0%	14%	0%
Home equity loans and lines of credit	44%	17%	39%	0%	0%	0%
Installment & credit card	85%	15%	0%	0%	0%	0%

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Totals	17%	14%	30%	14%	17%	8%
		60				

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The following table presents the scheduled maturities of fixed and adjustable rate loans:

	December 31, 2008			Total
	One year or less	After one year to five years (in thousands)	After five years	
<b>Fixed rate loans</b>				
Commercial mortgage	\$ 28,173	\$ 60,913	\$ 35,881	\$ 124,967
Multifamily mortgage	713	2,012	11,533	14,258
Commercial loans and lines	54,640	35,365	6,591	96,596
Construction	6,902			6,902
Home mortgage	4,434	8,803	10,713	23,950
Home equity loans	1,612	3,762	1,153	6,527
Installment & credit card	619	841	52	1,512
<b>Total fixed rate loan maturities</b>	<b>97,093</b>	<b>111,696</b>	<b>65,923</b>	<b>274,712</b>
<b>Adjustable rate loans</b>				
Commercial mortgage	28,705	43,961	103,887	176,553
Multifamily mortgage	1,617	2,432	33,799	37,848
Commercial loans and lines	86,575	31,390	14,421	132,386
Construction	104,003	22,149		126,152
Home equity loans	4,449	2,696	8,870	16,015
Home mortgage	591	152	20,509	21,252
Installment & credit card	2,438	4	1,061	3,503
<b>Total adjustable rate loan maturities</b>	<b>228,378</b>	<b>102,784</b>	<b>182,547</b>	<b>513,709</b>
<b>Total maturities</b>	<b>\$ 325,471</b>	<b>\$ 214,480</b>	<b>\$ 248,470</b>	<b>\$ 788,421</b>

**Allowance for Loan Losses**

We maintain an allowance for loan losses to provide for inherent losses in the loan portfolio. Additions to the allowance are established through a provision charged to expense. All loans which are judged to be uncollectible are charged against the allowance while any recoveries are credited to the allowance. It is our policy to charge-off any known losses at the time of determination. Any unsecured loan more than 90 days delinquent in payment of principal or interest and not in the process of collection is charged-off in total. Secured loans are evaluated on a case by case basis to determine the ultimate loss potential to us subsequent to the liquidation of collateral. In those cases where we are inadequately protected, a charge off will be made to reduce the loan balance to a level equal to the liquidation value of the collateral.

Our loan policy provides procedures designed to evaluate and assess the risk factors associated with our loan portfolio, to enable us to assess such risk factors prior to granting new loans and to evaluate the sufficiency of the allowance for loan losses. We conduct an assessment of the allowance on a monthly basis and undertake a more critical evaluation quarterly. At the time of the monthly review, the Board of Directors will examine and formally approve the adequacy of the allowance. The quarterly evaluation includes an assessment of the following factors: any external loan review and any regulatory examination, estimated probable loss exposure on each pool of loans, concentrations of credit, value of collateral, the level of delinquency and non-accruals, trends in the portfolio volume, effects of any changes in the lending policies and procedures, changes in lending personnel, present economic conditions at the local, state and national level, the amount of undisbursed off-balance sheet commitments, and a migration analysis of historical losses and recoveries for the prior eight quarters.

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Our evaluation of the adequacy of the allowance for loan losses includes a review of individual loans to identify specific probable losses and also assigns estimated loss factors to specific groups or types of loans to calculate possible losses. A component of our allowance for loan losses represents an estimate for the amount of accrued and unpaid interest which may be uncollectible on loans which are placed into non-accrual status. The allocated allowance is a result of these quantitative considerations. Our evaluation also considers subjective factors such as changes in local and regional economic and business conditions, financial improvement or deterioration in business sectors and industries, changes in lending practices, changes in personnel, changes in the volume and level of past due and nonaccrual loans and concentrations of credit. The unallocated allowance is a result of these qualitative considerations.

Third-party reviews of our loan portfolio, stress tests, concentration monitoring, risk-grading of individual loans and the classification of our loans into pass, special mention, substandard, doubtful and loss categories are all techniques we utilize to identify potential problem loans and determine the adequacy of our allowance for loan losses.

In 2007, we considered, among other things, the increase in loans outstanding as a result of the recent mergers, our positive asset quality measures, our experience in originating, underwriting and servicing real estate loans in a larger three county area over the past year, the depth and competency of our personnel, and the economic outlook and uncertainties of the real estate market, particularly in California, which in the second half of 2007, began to experience rapid and significant deterioration. As a result of our positive asset quality measures and controls, there was no provision in 2007.

During 2008, we have experienced higher levels of nonaccrual loans and loans past due 90 days or more and still accruing. Nonaccrual loans increased 48% to \$8.5 million at December 31, 2008 from \$5.7 million at December 31, 2007. Further, we have also experienced higher levels of charged-off loans. Net loan charge-offs increased to \$930,000 in 2008 compared to \$466,000 in 2007, an increase of 100%. While these amounts have increased from prior years, we believe these are consistent with, if not more favorable, than industry trends. Based upon the foregoing, we recorded a provision for loan losses of \$1,150,000 for the twelve months ended December 31, 2008.

The ratio of the allowance for loan losses to loans was 1.02 percent at December 31, 2008 compared with 1.05 percent at December 31, 2007. Even though the amount of nonaccrual loans has increased in 2008, most of these loans are real estate secured and the fair value of the underlying collateral, less estimated costs to sell, is greater than the loan balances and has not caused a large increase to the allowance for loan losses. While we believe that our allowance for credit losses was adequate at December 31, 2008 and December 31, 2007, the determination of the allowance is a highly judgmental process and we cannot assure you that we will not further increase or decrease the allowance or that bank regulators will not require us to increase or decrease the allowance in the future.

The following table presents activity in the allowance for loan losses:

	For the years ended December 31,				
	2008	2007	2006 (in thousands)	2005	2004
Beginning balance	\$ 7,828	\$ 4,740	\$ 4,468	\$ 3,511	\$ 3,635
Balance acquired in purchase		3,554			
Provision (credit) for loan losses	1,150		248	(84)	220
Loans charged-off	(1,075)	(567)	(55)	(10)	(57)
Transfer to undisbursed commitment			62	(165)	(417)
Recoveries on loans charged-off	145	101	17	1,216	130
Ending balance	\$ 8,048	\$ 7,828	\$ 4,740	\$ 4,468	\$ 3,511
Allowance to loans	1.02%	1.05%	1.30%	1.32%	1.25%

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The reserve for unfunded commitments was \$102,000 at December 31, 2008 compared with \$99,000 at December 31, 2007. There have been no charges to the reserve since its inception. The reserve for unfunded commitments is included among other liabilities on the balance sheet.

The following table presents the allocation of the allowance for loan losses to each loan category and the percentage relationship of loans in each category to total loans:

	For the years ended December 31,									
	2008		2007		2006		2005		2004	
	Allocation of the allowance by loan category	Percent of Loans in Category to Total Loans	Allocation of the allowance by loan category	Percent of Loans in Category to Total Loans	Allocation of the allowance by loan category	Percent of Loans in Category to Total Loans	Allocation of the allowance by loan category	Percent of Loans in Category to Total Loans	Allocation of the allowance by loan category	Percent of Loans in Category to Total Loans
	(in thousands)									
Commercial mortgage	\$ 2,309	38%	\$ 2,788	40%	\$ 1,545	39%	\$ 1,600	36%	\$ 1,516	43%
Multifamily mortgage	389	7%	157	5%	265	5%	247	6%	204	6%
Commercial loans	2,328	29%	1,903	25%	1,384	29%	1,177	26%	1,097	31%
Construction loans	1,986	17%	1,766	20%	1,252	23%	1,211	27%	561	16%
Home equity loans	172	3%	65	3%		1%		%		%
Home mortgage	334	6%	450	6%	132	2%	138	3%	105	3%
Installment and credit card	40	%	349	1%	162	1%	95	2%	28	1%
Subtotal	7,558		7,478		4,740		4,468		3,511	
Unallocated	490	%	350	%		%		%		%
Total	\$ 8,048	100%	\$ 7,828	100%	\$ 4,740	100%	\$ 4,468	100%	\$ 3,511	100%

The allocation presented above should not be interpreted as an indication that charges to the allowance will be incurred in these amounts or proportions. The amounts attributed to each loan category are based on the analysis described above.

The following table presents past due and nonaccrual loans. We had no restructured loans for the periods presented.

	For the years ended December 31,				
	2008	2007	2006	2005	2004
	(in thousands)				
Accruing loans past due 30 to 89 days	\$ 2,644	\$ 4,746	\$	\$	\$ 106
Accruing loans past due 90 days or more	\$ 429	\$ 2,848	\$	\$	\$ 1,804
Nonaccrual loans	\$ 8,475	\$ 5,720	\$	\$ 319	\$ 18
Ratios:					
Accruing loans past due 90 days or more to average loans	0.05%	0.42%			0.64%
Nonaccrual loans to average loans	1.08%	0.84%		0.10%	0.01%
Interest foregone on nonaccrual loans:					
Foregone interest	\$ 543	\$ 339	\$ 28	\$ 11	\$ 12

At December 31, 2008 the largest nonaccrual loan is a \$5.7 million matured land loan which is in the process of foreclosure. The other six nonaccrual loans are all under \$1 million individually and consist of four single family residential mortgage loans, one land loan and one SBA loan.

**Investing, funding and liquidity risk**

Liquidity risk is the risk to earnings or capital arising from the inability to meet obligations when they come due without incurring unacceptable losses. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources as well as the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.



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We manage bank liquidity risk through Board approved policies and procedures. These policies are reviewed and approved at least annually by the Directors. Liquidity risk policies provide us with a framework for consistent evaluation of risk and establish risk tolerance parameters. Management's Asset and Liability Committee meets regularly to evaluate liquidity risk, review and establish deposit interest rates, review loan and deposit in-flows and out-flows and reports quarterly to the Directors' Balance Sheet Management Committee on compliance with policies. The Directors' Audit Committee also engages a third party to perform a review of management's asset and liability practices to ensure compliance with policies.

We enjoy a large base of core deposits (representing checking, savings and small balance certificates of deposit). At December 31, 2008, core deposits totaled \$602.1 million. At December 31, 2007 core deposits totaled \$556.3 million. Core deposits represent a significant low-cost source of funds that support our lending activities and represent a key part of our funding strategy. We seek and stress the importance of both loan and deposit relationships with customers in our business plans.

Alternative funding sources include large balance certificates of deposits, federal funds purchased from other institutions, securities sold under agreements to repurchase and borrowings. Total alternative funds used at December 31, 2008 and December 31, 2007 were \$382.5 million and \$373.7 million, respectively.

In addition, we have lines of credit with other financial institutions providing for federal funds facilities up to a maximum of \$31.0 million. The lines of credit support short-term liquidity needs and cannot be used for more than 30 consecutive days. These lines are unsecured, have no formal maturity date and can be revoked at any time by the granting institutions. There were no borrowings under these lines of credit at December 31, 2008 and 2007. We also have a \$10.2 million secured borrowing facility with the Federal Reserve Bank of San Francisco which had no balance outstanding at December 31, 2008. In addition, we had approximately \$56.0 million of available borrowing capacity on the bank's secured FHLB borrowing facility at December 31, 2008.

The primary sources of liquidity for the Company, on a stand-alone basis, include the dividends from our bank subsidiary and, historically, our ability to issue equity and debt instruments. The ability of the Company to obtain funds for its cash requirements, including payments on the junior subordinated debentures underlying our outstanding trust preferred securities and dividends on our Series B Preferred Stock, is largely dependent upon the Bank's earnings. First California Bank is subject to restrictions under certain federal and state laws and regulations which limit its ability to transfer funds to the Company through intercompany loans, advances or cash dividends. Dividends paid by California state banks, such as First California Bank, are regulated by the DFI under its general supervisory authority as it relates to a bank's capital requirements. A California state bank may declare a dividend without the approval of the DFI as long as the total dividends declared in a calendar year do not exceed either the retained earnings or the total of net profits for three previous fiscal years less any dividends paid during such period. During the twelve months ended December 31, 2008, we received \$3.0 million in dividends from our bank subsidiary. The amount of dividends available for payment by our remaining bank subsidiary to the holding company at January 1, 2009 was \$14.9 million without prior approval from bank regulators. The Company has \$36.7 million in cash on deposit with its bank subsidiary.

## ***Securities***

Securities are classified as available-for-sale for accounting purposes and, as such, are recorded at their fair, or market, values in the balance sheet. Fair values are based on quoted market prices. Changes in the fair value of securities (that is, unrealized holding gains or losses) are reported as other comprehensive income, net of tax and carried as accumulated comprehensive income or loss within shareholders' equity until realized.

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The following table presents securities, at amortized cost, by maturity distribution and weighted average yield (tax equivalent):

	For the year ended December 31, 2008				Total
	One year or less	After one year to five years	After five years to ten years (in thousands)	Over ten years	
<b>Maturity distribution</b>					
U.S. government agency notes	\$ 2,000	\$	\$	\$	\$ 2,000
U.S. government agency mortgage-backed securities		61,076	53,352	14,632	129,060
Collateralized mortgage obligations		29,667	9,510	23,941	63,118
Municipal securities	296	2,547	9,793	4,691	17,327
Other domestic debt securities				4,941	4,941
<b>Total</b>	<b>\$ 2,296</b>	<b>\$ 93,290</b>	<b>\$ 72,655</b>	<b>\$ 48,205</b>	<b>\$ 216,446</b>
<b>Weighted average yield</b>					
U.S. government agency notes	5.00%				5.00%
U.S. government agency mortgage-backed securities		5.09%	5.31%	5.34%	5.21%
Collateralized mortgage obligations		5.42%	5.33%	5.76%	5.53%
Municipal securities	7.24%	5.49%	5.65%	5.96%	5.74%
Other domestic debt securities				3.76%	3.76%
<b>Total</b>	<b>5.29%</b>	<b>5.21%</b>	<b>5.36%</b>	<b>5.45%</b>	<b>5.31%</b>

Securities, at amortized cost, decreased by \$14.2 million, or 6 percent, from \$230.7 million at December 31, 2007 to \$216.4 million at December 31, 2008 primarily through principal paydowns, maturities and called securities.

Net unrealized holding gains or (losses) at December 31, 2008 and 2007 were (\$13,984,000) and \$444,000, respectively. As a percentage of securities, at amortized cost, net unrealized holding gains or (losses) were (6.46) percent and 0.19 percent at the end of each respective period. Securities are comprised largely of U.S. government agency obligations, mortgage-backed securities and California municipal general obligation bonds. We perform regular analyses on the investment securities available-for-sale portfolio to determine if any securities are other-than-temporarily impaired. If it is probable that we 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 is considered to have occurred. When an other-than-temporary impairment occurs, the cost basis of the security is written down to its fair value (as the new cost basis) and the write down is accounted for as a realized loss. Other-than-temporary declines in fair value are assessed based on the duration the security has been in a continuous unrealized loss position, the severity of the decline in value, the rating of the security, the long-term financial outlook of the issuer and our ability and intent on holding the securities until the fair values recover.

The majority of unrealized losses in the available-for-sale securities portfolio at December 31, 2008 is related to CMOs. As of December 31, 2008, the fair value of these securities totaled \$47.9 million, representing 24 percent of our securities portfolio. The \$47.9 million is comprised of \$9.2 million of agency CMOs and \$38.7 million of private label CMOs. Gross unrealized losses related to these securities amounted to \$15.5 million, or 25 percent of the aggregate amortized cost basis of these securities as of December 31, 2008. These unrealized losses are caused by a severe disruption in the market for these securities and historically wide market spreads resulting from instability in the residential real estate and credit markets. All of these securities had credit rating

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agency grades of triple-A upon purchase and various rating agencies have reaffirmed these securities' investment grade status at December 31, 2008, except one. With the exception of one security, described below, the issuers of these securities have not, to our knowledge, established any cause for default on these securities and the performance of the underlying collateral is within expected parameters. One CMO with an amortized cost basis of \$8.3 million has an unrealized loss of \$3.5 million as of December 31, 2008. This security is rated triple-C by one rating agency as of December 31, 2008. The current delinquency and default rates of the collateral for this security are above original expectations at the time of purchase. We performed a discounted cash flow analysis using the historical prepayment speed of this security, the cumulative default rate over the last 12 months and the loss severity rate over the last 12 months to determine if there was other-than-temporary impairment of this security as of December 31, 2008. This discounted cash flow analysis resulted in no shortfall of contractual cash flows to the tranche of this security owned by us. As we have the ability and intention to hold this security for a sufficient amount of time, during which the fair value may recover to cost or the security matures, we do not deem this security to be other-than-temporarily impaired at December 31, 2008.

We also own one pooled trust preferred security with an amortized cost basis of \$5.0 million and an unrealized loss of \$2.0 million at December 31, 2008. This unrealized loss is primarily caused by a severe disruption in the market for these securities and no active market for this type of security. The security has an investment rating of triple-A by various rating agencies and is supported by a significant collateral margin at December 31, 2008. There is very little default experience within this security and there is no evidence of a shortage of contractual cash flows to the tranche of the security owned by us. As we have the ability and intention to hold this security for a sufficient amount of time, during which the fair value may recover to cost or the security matures, we do not deem this security to be other-than-temporarily impaired at December 31, 2008.

The remainder of our securities portfolio consists mainly of agency mortgage-backed securities and various municipal securities. A few of these securities have been in a continuous unrealized loss position for twelve months or longer as of December 31, 2008. All of these securities had credit rating agency grades of triple-A upon purchase and various rating agencies have reaffirmed these securities' long-term investment grade status of triple-B or better at December 31, 2008. The unrealized losses for these securities are not material as the largest individual unrealized loss is \$25,900 and the aggregate gross unrealized losses for these securities total \$173,700. The issuers of these securities have not, to our knowledge, established any cause for default on these securities. These securities have fluctuated in value since their purchase date as market interest rates have fluctuated. However, we have the ability and the intention to hold these securities for a sufficient amount of time, during which their fair values may recover to cost or the securities may mature. As such, we do not deem these securities to be other-than-temporarily impaired at December 31, 2008.

We will continue to evaluate our securities portfolio for other-than-temporary impairment at each reporting date and we can provide no assurance that there will not be an other-than-temporary impairment in future periods.

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The following tables present the average balance and the average rate paid on each deposit category for the periods indicated:

	For the years ended December 31,					
	2008		2007		2006	
	Balance	Rate	Balance	Rate	Balance	Rate
	(in thousands)					
<b>Core deposits</b>						
Noninterest bearing demand deposits	\$ 190,939		\$ 193,630		\$ 102,022	
Interest checking	47,526	0.45%	39,186	0.84%	30,737	0.72%
Savings accounts	204,351	1.77%	223,508	3.21%	124,319	2.77%
Time deposits less than \$100,000	106,851	3.38%	82,796	4.51%	23,708	3.53%
<b>Total core deposits</b>	<b>549,667</b>	<b>1.36%</b>	<b>539,120</b>	<b>2.09%</b>	<b>280,786</b>	<b>1.53%</b>
<b>Noncore deposits</b>						
Time deposits of \$100,000 or more	209,483	2.84%	165,319	4.28%	83,993	4.29%
<b>Total core and noncore deposits</b>	<b>\$ 759,150</b>		<b>\$ 704,439</b>		<b>\$ 364,779</b>	

Large balance certificates of deposits (that is, balances of \$100,000 or more) totaled \$215.5 million at December 31, 2008. Large balance certificates of deposits were \$204.8 million at December 31, 2007. A portion of these large balance time deposits represent time deposits placed by the State Treasurer of California with the Bank. The time deposit program is one element of a pooled investment account managed by the State Treasurer for the benefit of the State of California and all participating local agencies. The pooled investment account has approximately \$63 billion of investments of which approximately \$8 billion represented time deposits placed at various financial institutions. At December 31, 2008, State of California time deposits placed with us, with original maturities of three and six months, were \$110.0 million. We believe that the State Treasurer will continue this program; we also believe that we have the ability to establish large balance certificates of deposit rates that will enable us to attract, replace, or retain those deposits accepted in our local market area if it becomes necessary under a modified funding strategy. The remainder represents time deposits accepted from customers in our market area.

We use brokered CDs, which are classified as time certificates of deposits less than \$100,000, to supplement our liquidity and achieve other asset liability management objectives (see the discussion under Net Interest Income). Brokered deposits are wholesale certificates of deposit placed by rate sensitive customers that do not have any other significant relationship with us. Professionals operating under established investment criteria manage most wholesale funds and the brokered deposits are typically in amounts that are within the FDIC deposit insurance limit. As a result, these funds are generally very sensitive to credit risk and interest rates, and pose greater liquidity risk to a bank. They may refuse to renew the certificates of deposit at maturity if higher rates are available elsewhere or if they perceive that creditworthiness is deteriorating. At December 31, 2008 we had total brokered deposits of \$98.2 million of which \$79.0 million had maturities within 12 months.

The following table presents the maturity of large balance certificates of deposits for the periods indicated:

	For the Years Ending December 31,					
	2008		2007		2006	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
	(in thousands)					
Three months or less	\$ 149,810	70%	\$ 129,528	63%	\$ 46,819	59%
Over three months through six months	20,912	9%	24,879	12%	5,122	6%
Over six months through one year	25,807	12%	42,474	21%	23,218	29%
Over one year	18,984	9%	7,876	4%	4,921	6%
<b>Total</b>	<b>\$ 215,513</b>	<b>100%</b>	<b>\$ 204,757</b>	<b>100%</b>	<b>\$ 80,080</b>	<b>100%</b>



**Table of Contents****Borrowings**

Borrowings are comprised of federal funds purchased from other financial institutions, FHLB advances and securities sold under agreements to repurchase. At December 31, 2008, we had \$167.0 million of borrowings outstanding, of which \$45.0 million was comprised of securities sold under agreements to repurchase and \$122.0 million of FHLB advances. For our FHLB advances, the following table presents the amounts and weighted average interest rates outstanding.

	Year Ended December 31, 2008		Year Ended December 31, 2007	
	Federal Home Loan Bank Advances	Weighted average interest rate	Federal Home Loan Bank Advances	Weighted average interest rate
	(in thousands)			
Amount outstanding at end of period	\$ 122,000	3.88%	\$ 123,901	4.19%
Maximum amount outstanding at any month-end during the period	\$ 196,463	3.29%	\$ 123,901	4.19%
Average amount outstanding during the period	\$ 148,748	3.75%	\$ 61,806	4.87%

The following table presents the maturities of FHLB advances at December 31, 2008.

	Amount	Maturity Year	Weighted Average Interest Rate
	(in thousands)		
Term advances	\$ 28,500	2009	3.72%
Term advances	40,000	2010	3.82%
Term advances	11,000	2011	3.42%
Term advances	17,500	2012	4.12%
Term advances	17,500	2014	4.24%
Term advances	7,500	2017	4.07%
	\$ 122,000		

The following table presents the maturities of securities sold under agreements to repurchase at December 31, 2008.

Amount	Maturity Year	Weighted Average Interest Rate
	(in thousands)	
\$ 15,000	2011	3.64%
20,000	2013	3.60%
10,000	2014	3.72%
\$ 45,000		

**Junior Subordinated Debentures**

At December 31, 2008, we had an aggregate of \$26.7 million of junior subordinated debentures outstanding. The terms of these junior subordinated debentures are discussed in Note #9 to our audited financial statements included in this prospectus.

As of December 31, 2008, the weighted average interest rate being paid on our junior subordinated debentures was 6.55%. At December 31, 2008, our annual interest payments with respect to our outstanding junior subordinated debentures amounted to \$1.8 million in the aggregate, based on the applicable interest rate during the year.



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### ***Capital resources***

We have 1,000 issued shares of preferred stock series A, \$0.01 par value, with a liquidation preference of \$1,000 per share. Redemption of the preferred stock series A is at the Company's option subject to certain restrictions imposed by our preferred stock series B. The redemption amount is computed at the per share liquidation preference plus unpaid dividends at a rate of 8.5%. Each holder of preferred stock series A has the right, exercisable at the option of the holder, to convert all or some of such holder's series A shares into common stock. The number of shares of common stock to be issued upon conversion of each share of preferred stock series A shall be determined by dividing the sum of each share's liquidation preference plus unpaid dividend by the conversion factor of 5.63 per share. As of December 31, 2008, the number of common shares which would be issued upon conversion of the preferred stock series A is 280,450.

On December 19, 2008, we participated in the CPP under which we received \$25 million in exchange for issuing 25,000 preferred stock series B shares and a warrant to purchase common stock to the Treasury. As a participant in CPP, we are subject to various restrictions and requirements, such as restrictions on our stock repurchases and payment of dividends, and other requirements relating to our executive compensation and corporate governance practices. Moreover, under legislation such as the ARRA, we may early redeem the shares issued to the U.S. Treasury under the CPP without any early penalty or requirement to raise new capital, as previously required under the original terms of the CPP. The preferred stock series B qualifies as Tier 1 capital, and holders are entitled to receive cumulative cash dividends at a rate of 5 percent per year for the first five years and 9 percent per year thereafter, on a liquidation preference of \$1,000 per share. Dividends are payable quarterly in arrears on each of February 15, May 15, August 15, and November 15, if, as and when declared by our Board of Directors, out of assets legally available for payment. The common stock warrant entitles the U.S. Treasury to purchase 599,042 shares of our common stock at an initial exercise price of \$6.26 for a term of ten years. We recorded the total \$25 million of the preferred stock series B and the warrant at their relative fair values of \$22.7 million and \$2.3 million, respectively. The difference from the par amount of the preferred shares is accreted to preferred stock over five years using the interest method.

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

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the following table) of Total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to average assets (as defined). Management believes, as of December 31, 2008, that the Company meets all capital adequacy requirements to which it is subject.

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The following tables present the capital amounts and ratios of the Company with a comparison to the minimum ratios for the periods indicated:

	Actual		For Capital Adequacy Purposes	
	Amount	Ratio (in thousands)	Amount	Ratio
December 31, 2008				
Total capital (to risk weighted assets)	\$ 147,680	16.62%	\$ 71,102	<sup>3</sup> 8.00%
Tier I capital (to risk weighted assets)	\$ 139,530	15.70%	\$ 35,551	<sup>3</sup> 4.00%
Tier I capital (to average assets)	\$ 139,530	12.77%	\$ 43,699	<sup>3</sup> 4.00%

	Actual		For Capital Adequacy Purposes	
	Amount	Ratio (in thousands)	Amount	Ratio
December 31, 2007				
Total capital (to risk weighted assets)	\$ 115,387	13.35%	\$ 69,167	<sup>3</sup> 8.00%
Tier I capital (to risk weighted assets)	\$ 107,460	12.43%	\$ 34,583	<sup>3</sup> 4.00%
Tier I capital (to average assets)	\$ 107,460	10.42%	\$ 41,248	<sup>3</sup> 4.00%

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of Total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to average assets (as defined). Management believes, as of December 31, 2008, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2008, the Bank was categorized as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum Total risk-based capital, Tier 1 risk-based capital, and Tier 1 leverage capital ratios as set forth in the table below. There are no conditions or events since December 31, 2008 that management believes may have changed the Bank's category.

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The following tables present the capital amounts and ratios of the Bank with a comparison to the minimum ratios for the periods indicated:

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount (in thousands)	Ratio	Amount	Ratio
December 31, 2008						
Total capital (to risk weighted assets)	\$ 109,022	12.27%	\$ 71,110	<sup>3</sup> 8.00%	\$ 88,888	<sup>3</sup> 10.00%
Tier I capital (to risk weighted assets)	\$ 100,873	11.35%	\$ 35,555	<sup>3</sup> 4.00%	\$ 53,333	<sup>3</sup> 6.00%
Tier I capital (to average assets)	\$ 100,873	9.26%	\$ 43,568	<sup>3</sup> 4.00%	\$ 54,460	<sup>3</sup> 5.00%

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount (in thousands)	Ratio	Amount	Ratio
December 31, 2007						
Total capital (to risk weighted assets)	\$ 102,826	11.98%	\$ 68,687	<sup>3</sup> 8.00%	\$ 85,858	<sup>3</sup> 10.00%
Tier I capital (to risk weighted assets)	\$ 94,899	11.05%	\$ 34,343	<sup>3</sup> 4.00%	\$ 51,515	<sup>3</sup> 6.00%
Tier I capital (to average assets)	\$ 94,899	9.24%	\$ 41,065	<sup>3</sup> 4.00%	\$ 51,332	<sup>3</sup> 5.00%

We recognize that a strong capital position is vital to growth, continued profitability, and depositor and investor confidence. Our policy is to maintain sufficient capital at not less than the well-capitalized thresholds established by banking regulators.

We announced on November 7, 2007 that our board of directors authorized a repurchase of up to \$5 million of the Company's common stock until November 2008. Effective August 31, 2008, the Board of Directors terminated the stock repurchase program due to current market conditions. The Company repurchased 344,660 shares for \$3,050,000 while the repurchase program was active.

**Table of Contents****Commitments, contingent liabilities, contractual obligations and off-balance sheet arrangements**

In the normal course of business, we make commitments to extend credit or issue letters of credit to customers. We generally do not recognize these commitments in our balance sheet. These commitments do involve, to varying degrees, elements of credit risk; however, we use the same credit policies and procedures as we do for on-balance sheet credit facilities. Commitments to extend credit were \$153.1 million at December 31, 2008 compared with \$198.7 million at December 31, 2007. Commercial and stand-by letters of credit were \$0.4 million and \$2.5 million at December 31, 2008 and December 31, 2007, respectively. The known contractual obligations of the Company at December 31, 2008 are as follows:

	Twelve months and less	After one year but within three years	Payments Due After three years but within five years	After five years	Total
	(Dollars in thousands)				
FHLB term advances	\$ 28,500	\$ 51,000	\$ 35,000	\$ 7,500	\$ 122,000
Securities sold under agreements to repurchase		15,000	20,000	10,000	45,000
Salary continuation benefits				384	384
Deferred compensation benefits	206	412	224		842
Severance benefits	265	530	177		972
Junior subordinated debentures				26,701	26,701
Operating lease obligations	1,728	3,244	3,113	6,742	14,827
Total	\$ 30,699	\$ 70,186	\$ 58,514	\$ 51,327	\$ 210,726

We have entered into deferred compensation agreements with several of our key employees. We suspended participation and contributions to these agreements in 2007. Under the agreements, benefits are to be paid in a lump sum or equal monthly installments for a period up to five years upon the employee's termination with the Company or within 30 days of the employee's death.

**Interest rate risk**

Interest rate risk is the risk to earnings or capital arising from movements in interest rates. Interest rate risk arises from differences between the timing of rate changes and the timing of cash flows (re-pricing risk), from changing the rate relationships among different yield curves affecting bank activities (basis risk), from changing rate relationships across the spectrum of maturities (yield curve risk), and from interest-related options embedded in loans and products (options risk).

We manage bank interest risk through Board approved policies and procedures. These policies are reviewed and approved at least annually by the Directors. Interest rate risk policies provide management with a framework for consistent evaluation of risk and establish risk tolerance parameters. Management's Asset and Liability Committee meets regularly to evaluate interest rate risk, engages a third party to assist in the measurement and evaluation of risk and reports quarterly to the Directors' Balance Sheet Management Committee on compliance with policies. The Directors' Audit Committee also engages a third party to perform a review of management's asset and liability practices to ensure compliance with policies.

We use simulation modeling techniques that apply alternative interest rate scenarios to periodic forecasts of future business activity and assess the potential changes to net interest income. In our most recent simulation, we estimated that net interest income would increase approximately 0.17% within a 12-month time horizon for an assumed 100 basis point decrease in prevailing interest rates or decrease approximately 0.03% for an assumed 100 basis point increase in prevailing interest rates. In addition, we estimated that net interest income would decrease approximately 0.07% within a 12-month time horizon for an assumed 200 basis point increase in prevailing interest rates. These estimated changes were within the policy limits established by the Board.

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Our simulation model includes assumptions about anticipated prepayments on mortgage-related instruments, the estimated cash flow on loans and deposits, and our future business activity. These assumptions are inherently uncertain and, as a result, our modeling techniques cannot precisely estimate the effect of changes in net interest income. Actual results will differ from simulated results due to the timing, magnitude and frequency of interest rate changes, cash flow and business activity.

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**BUSINESS**

**Our Business**

*Business of First California Financial Group*

First California is a bank holding company registered under the BHCA. First California's primary function is to coordinate the general policies and activities of its bank subsidiary, First California Bank as well as to consider from time to time other legally available investment opportunities. SC Financial is an inactive subsidiary of First California.

First California was incorporated under the laws of the State of Delaware on June 7, 2006. The Company was formed as a wholly owned subsidiary of National Mercantile for the purposes of facilitating the mergers of National Mercantile and FCB. On March 12, 2007, National Mercantile merged with and into First California. Immediately thereafter, the parties completed the previously announced merger of FCB with and into First California. As a result of the mergers, the separate corporate existence of National Mercantile and FCB ceased, and First California succeeded, and assumed all the rights and obligations of, National Mercantile, whose principal assets were the capital stock of two bank subsidiaries, Mercantile National Bank and South Bay Bank, N.A., and the rights and obligations of FCB, whose principal assets were the capital stock of First California Bank. On June 18, 2007, First California integrated its bank subsidiaries into First California Bank.

*Business of First California Bank*

The Bank is a full-service commercial bank headquartered in Westlake Village, California. The Bank is chartered under the laws of the State of California and is subject to supervision by the California Commissioner of Financial Institutions. The FDIC insures its deposits up to the maximum legal limit.

On January 23, 2009, the Bank assumed the insured, non-brokered deposits of 1st Centennial Bank, totaling approximately \$270 million, from the FDIC. The Bank also purchased approximately \$178 million in cash and cash equivalents, \$89 million of investment securities and \$101 million in loans related to the transaction. In January 2009, the parent company contributed \$15 million of capital to the Bank which in turn paid approximately that sum to the FDIC for the assumption of those deposits and purchase of those assets. The addition of 1st Centennial Bank's six branches expanded First California Bank's operations to 18 full-service branches throughout Southern California and increased total assets to greater than \$1.4 billion.

The Bank's business strategy has been to attract individuals, professionals, and small- to mid-sized business borrowers in our primary service areas by offering a variety of loan products and a full range of banking services coupled with highly personalized service. The Bank's operations are primarily located within the areas commonly known as the 101 corridor stretching from the City of Ventura to Calabasas, California, the Moorpark-Simi Valley corridor, the western San Fernando Valley, the Tri-Cities area of Glendale-Burbank-Pasadena, the South Bay, the Inland Empire, north San Diego County, Century City and other parts of Los Angeles, Orange and Ventura Counties in Southern California. Our lending products include revolving lines of credit, term loans, commercial real estate loans, construction loans and consumer and home equity loans, which often contain terms and conditions tailored to meet the specific demands of the market niche in which the borrower operates. Additionally, the Bank provides a wide array of deposit and investment products serving the comprehensive banking needs of businesses and consumers in Los Angeles, Orange, Ventura, San Diego, Riverside and San Bernardino counties through traditional business and consumer banking, construction finance, SBA lending, entertainment finance and commercial real estate lending via 17 full-service branch locations.

Business loans, represented by commercial real estate loans, commercial loans and construction loans, comprise the largest portion of the Bank's loan portfolio. Commercial real estate loans rely upon the cash flow originating from the underlying real property. Commercial real estate is a cyclical industry that is affected not only by general economic conditions but also by local supply and demand. Commercial loans rely upon the cash

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flow originating from the underlying business activity of the enterprise. The manufacture, distribution or sale of goods or sale of services are not only affected by general economic conditions but also by the ability of the enterprise's management to adjust to local supply and demand conditions, maintain good labor, vendor and customer relationships, as well as market and sell their goods or services for a profit. Construction loans provide developers or owners with funds to build or improve properties that will ultimately be sold or leased. Construction loans are generally considered to involve a higher degree of risk than other loan categories because they rely upon the developer's or owner's ability to complete the project within specified cost and time limits.

Consumer loans, a smaller component of the Bank's loan portfolio, are represented by home mortgages and home equity loans and lines of credit that are secured by first or second trust deeds on a borrower's real estate property, typically their principal residence. These loans are dependent on a person's ability to regularly pay the principal and interest due on the loan and, secondarily, on the value of real estate property that serves as collateral for the loan.

The Bank's business strategy also stresses the importance of customer deposit relationships to support its lending activities. Checking deposits, savings deposits and certificates of deposits represent a significant low-cost and stable source of funds. Business customers are offered cash management products, including on-line banking and remote deposit capture, to meet their specific banking needs.

The Bank's goal is to offer its customers a consistently high level of individualized personal service. Accordingly, in order to meet the changing needs of our customers, the Bank is constantly evaluating a variety of options to broaden the services and products it provides. The Bank's strategy in attaining its goals has been to implement and maintain risk management and controls to achieve a safe and sound business policy, employing an aggressive marketing plan which emphasizes relationship banking and the personal touch, offering competitive products and managing growth. The Bank provides convenience through 17 banking offices with ATM access, 24 hour telephone access to account information, on-line banking, courier service and remote deposit capture. The diversity of our delivery systems enables customers to choose the method of banking that is most convenient for them. The Bank trains its staff to recognize each customer, greet them, and be able to address them by name so that they feel as if they have a private banker.

## **Competition**

The banking business in California, generally, and in the Bank's service areas, specifically, is highly competitive with respect to both loans and deposits and is dominated by a number of major banks that have many offices operating over wide geographic areas. The Bank competes for deposits and loans principally with these major banks and other financial institutions located in our market areas. Among the advantages that the major banks have over the Bank are their ability to finance extensive advertising campaigns and to allocate their investment assets to regions of highest yield and demand. Many of the major commercial banks operating in the Bank's service areas offer certain services (such as trust and international banking services) that are not offered directly by the Bank and, by virtue of their greater total capitalization, such banks have substantially higher lending limits. Moreover, all banks face increasing competition for loans and deposits from non-bank financial intermediaries such as mortgage companies, insurance companies, credit unions and securities firms.

In November 1999, the President signed the Gramm-Leach-Bliley Act, or the GLB Act, into law, which significantly changed the regulatory structure and oversight of the financial services industry. The GLB Act revised the BHCA and repealed the affiliation prohibitions of the Glass-Steagall Act of 1933, as amended. Consequently, a qualifying holding company, called a financial holding company, can engage in a full range of financial activities, including banking, insurance, and securities activities, as well as merchant banking and additional activities that are financial in nature or incidental to those financial activities. Expanded financial affiliation opportunities for existing bank holding companies are now permitted. Moreover, various non-bank financial services providers can acquire banks while also offering services like securities underwriting and underwriting and brokering insurance products. The GLB Act also expanded passive investment activities by

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financial holding companies, permitting investments in any type of company, financial or non-financial, through acquisitions of merchant banking firms and insurance companies.

Given that the traditional distinctions between banks and other providers of financial services have been effectively eliminated, the Bank has faced and will continue to face additional competition from thrift institutions, credit unions, insurance companies and securities firms. Additionally, the Bank's ability to cross-market banking products to existing customers or the customers of affiliated companies may make it more difficult to compete.

In order to compete, the Bank uses to the fullest extent possible the familiarity of its directors and officers with the market area and its residents and businesses and the flexibility that the Bank's independent status will permit. This includes an emphasis on specialized services, local promotional activity, and personal contacts by directors, officers and other employees. The Bank uses advertising, including newspaper ads and direct mail pieces, to inform the community of the services it offers. The Bank also utilizes emerging marketing techniques, such as the Internet, to reach target markets. The Bank also has an active calling program where officers, including commissioned business development officers, contact targeted prospects to solicit both deposit and loan business.

The Bank has developed programs that are specifically addressed to the needs of consumers, professionals and small-to mid-sized businesses. In the event there are customers whose loan demands exceed the Bank's lending limits, it arranges for such loans on a participation basis with other financial institutions and intermediaries. The Bank also assists those customers requiring other services not offered by the Bank to obtain those services from correspondent banks. In addition, the Bank offers ATM services, a night depository, remote deposit capture, courier services, bank-by-mail services, merchant windows, lockbox and direct deposit services.

The Bank's management believes that the Bank's reputation in the communities served and personal service philosophy enhance the ability to compete favorably in attracting and retaining individual, professional and business clients. The Bank also believes that it has an advantage over the larger national and super regional institutions because it is managed by locally-known, well-respected and experienced bankers. Moreover, our larger competitors may not offer adequate personalized banking services, since their emphasis is on large volume and standardized retail products.

The Bank also faces growing competition from other community banks. These institutions have similar marketing strategies, have also been successful and offer strong evidence regarding the potential success of the community banking sector.

No assurance can be given that ongoing efforts to compete will continue to be successful.

### **Dependence on One or a Few Major Customers; Business Concentrations**

No individual or single group of related accounts is considered material in relation to our total assets or to the assets or deposits of the Bank, or in relation to our overall business. However, approximately 70% of our loan portfolio at December 31, 2008 consisted of real estate-secured loans, including commercial real estate loans, construction loans, home mortgage loans, home equity loans and lines of credit. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" on page 18 of this prospectus. Moreover, our business activities are currently focused primarily in Southern California, with the majority of our business concentrated in Ventura, Orange and Los Angeles Counties. Consequently, our results of operations and financial condition are dependent upon the general trends in the Southern California economies and, in particular, the residential and commercial real estate markets. In addition, the concentration of our operations in Southern California exposes us to greater risk than other banking companies with a wider geographic base in the event of catastrophes, such as earthquakes, fires and floods in this region.

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### **Internet Banking Services**

The Bank maintains an internet website, which serves as an additional means of providing customer access to a variety of banking services, including 24/7 online banking. The Bank's website address is [www.fcbank.com](http://www.fcbank.com). No information contained on the website is incorporated herein by reference.

### **Employees**

At November 30, 2009, the Bank had 245 employees. The Bank's employees are not represented by any union or other collective bargaining agreement and the Bank considers its relations with employees to be excellent.

### **Supervision and Regulation**

#### *Recent Developments*

In response to the financial crisis affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions, on October 3, 2008, the EESA was signed into law. Through its authority under the EESA, the Treasury announced in October 2008 the CPP, a program designed to bolster healthy institutions, like First California, by making \$250 billion of capital available to U.S. financial institutions in the form of preferred stock.

We participated in the CPP in December 2008 so that we could continue to lend and support our current and prospective clients, especially during this unstable economic environment. Under the terms of our participation, we received \$25 million in exchange for the issuance of preferred stock and a warrant to purchase common stock, and became subject to various requirements, including certain restrictions on paying dividends on our common stock and repurchasing our equity securities, unless the U.S. Treasury has consented. Additionally, in order to participate in the CPP, we were required to adopt certain standards for executive compensation and corporate governance. These standards generally apply to the Chief Executive Officer, Chief Financial Officer and the three next most highly compensated senior executive officers, and include (1) ensuring that incentive compensation of senior executives does not encourage unnecessary and excessive risks that threaten the value of the financial institution; (2) required clawback of any bonus or incentive compensation paid to a senior executive based on statements of earnings, gains or other criteria that are later proven to be materially inaccurate; (3) limiting golden parachute payments to certain senior executives; and (4) agreement not to deduct for tax purposes executive compensation in excess of \$500,000 for each senior executive. To date, First California has complied with these requirements, but the Secretary of the Treasury is empowered under EESA to adopt other standards, with which First California would be required to comply. Additionally, the bank regulatory agencies, the U.S. Treasury and the Office of Special Inspector General, also created by the EESA, have issued guidance and requests to the financial institutions that participated in the CPP to document their plans and use of CPP funds and their plans for addressing the executive compensation requirements associated with the CPP. First California will respond to such requests accordingly.

In February 2009, the ARRA was enacted. Among other provisions, the ARRA amended the EESA and contains requirements imposed on financial institutions like us which have already participated in the CPP. These requirements expand the initial executive compensation restrictions under the CPP to include, among other things, application of the required clawback provision to our top 25 most highly compensated employees, prohibition of certain bonuses to our top five most highly compensated employees, expanded limitations on golden parachute payments to top ten most highly compensated employees, implementation of a company-wide policy regarding excessive and luxury expenditures, and requirement of a shareholder advisory vote on our executive compensation. Under the new ARRA requirements, we may early redeem the shares issued to the U.S. Treasury under the CPP without any early penalty or requirement to raise new capital, as previously required under the original terms of the CPP. However, until the shares are redeemed and for so long as we continue to participate in the CPP, we will remain subject to these expanded requirements, and any other requirements applicable to CPP participants that may be subsequently adopted.

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The EESA also increased FDIC deposit insurance on most accounts from \$100,000 to \$250,000. This increase is currently in place until the end of 2009 and is not covered by deposit insurance premiums paid by the banking industry. The FDIC has recently proposed that Congress extend the \$250,000 limit to 2016. In addition, the FDIC has implemented two temporary programs under the TLGP to provide deposit insurance for the full amount of most non-interest bearing transaction accounts through the end of 2009 and to guarantee certain unsecured debt of financial institutions and their holding companies through June 2012. The Bank is participating in the deposit insurance program and has the ability to issue guaranteed debt under the program (the Bank elected to opt out of the extension of the transaction account guarantee program). The FDIC charges systemic risk special assessments to depository institutions that participate in the TLGP. The FDIC has recently proposed that Congress give the FDIC expanded authority to charge fees to the holding companies which benefit directly and indirectly from the FDIC guarantees. See Federal Deposit Insurance below.

### *General*

Banking is a complex, highly regulated industry. The primary goals of the regulatory scheme are to maintain a safe and sound banking system, protect depositors and the FDIC insurance fund, and facilitate the conduct of sound monetary policy. This regulatory scheme is not designed for the benefit of stockholders of the Company or its successors. In furtherance of these goals, Congress and the states have created several largely autonomous regulatory agencies and enacted numerous laws that govern banks, bank holding companies and the financial services industry. Consequently, the growth and earnings performance of the Company or its successors and the Bank can be affected not only by management decisions and general economic conditions, but also by the requirements of applicable state and federal statutes, regulations and the policies of various governmental regulatory authorities, including the FRB, the FDIC, the DFI and the U.S. Treasury.

The commercial banking business is also influenced by the monetary and fiscal policies of the federal government and the policies of the FRB. The FRB implements national monetary policies (with objectives such as curbing inflation and combating recession) by its open-market operations in United States Government securities, by adjusting the required level of reserves for financial intermediaries subject to its reserve requirements and by varying the discount rates applicable to borrowings by depository institutions. The actions of the FRB in these areas influence the growth of bank loans, investments and deposits and also affect interest rates charged on loans and paid on deposits. Indirectly, such actions may also impact the ability of non-bank financial institutions to compete with the Bank. The nature and impact of any future changes in monetary policies cannot be predicted.

The system of supervision and regulation applicable to financial services businesses governs most aspects of the business of the Company and the Bank, including: (1) the scope of permissible business; (2) investments; (3) reserves that must be maintained against deposits; (4) capital levels that must be maintained; (5) the nature and amount of collateral that may be taken to secure loans; (6) the establishment of new branches; (7) mergers and consolidations with other financial institutions; and (8) the payment of dividends.

From time to time laws or regulations are enacted which have the effect of increasing the cost of doing business, limiting or expanding the scope of permissible activities, or changing the competitive balance between banks and other financial and non-financial institutions. Proposals to change the laws and regulations governing the operations of banks and bank holding companies are frequently made in Congress, in the California legislature and by various bank and other regulatory agencies. Future changes in the laws, regulations or policies that impact the Company or its successors and the Bank cannot necessarily be predicted, but they may have a material effect on the business and earnings of the Company and the Bank.

Set forth below is a summary description of certain of the material laws and regulations that relate to our operations and those of the Bank. The description does not purport to be a complete description of these laws and regulations and is qualified in its entirety by reference to the applicable laws and regulations.

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### *Regulation of First California*

As a registered bank holding company, First California and its subsidiaries are subject to the FRB's supervision, regulation and examination under the BHCA. Under the BHCA, we are subject to periodic examination by the FRB. We are also required to file with the FRB periodic reports of our operations and such additional information regarding the Company and its subsidiaries as the FRB may require.

Under FRB regulations, a bank holding company is required to serve as a source of financial and managerial strength to its subsidiary banks and may not conduct its operations in an unsafe or unsound manner. In addition, it is the FRB's policy that in serving as a source of strength to its subsidiary banks, a bank holding company should stand ready to use available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity and should maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks. A bank holding company's failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered by the FRB to be an unsafe and unsound banking practice or a violation of the FRB's regulations or both.

First California is required to obtain the FRB's prior approval before acquiring ownership or control of more than 5% of the outstanding shares of any class of voting securities, or substantially all the assets, of any company, including a bank or bank holding company. Further, we are allowed to engage, directly or indirectly, only in banking and other activities that the FRB deems to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Pursuant to the GLB Act, in order to elect and retain financial holding company status, all depository institution subsidiaries of a bank holding company must be well capitalized, well managed, and, except in limited circumstances, be in satisfactory compliance with the Community Reinvestment Act ( CRA ).

First California's securities are registered with the SEC under the Securities Exchange Act of 1934, as amended (the Exchange Act ), and listed on the NASDAQ Global Select Market. As such, First California is subject to the information, proxy solicitation, insider trading, corporate governance, and other requirements and restrictions of the Exchange Act, as well as the Marketplace Rules and other requirements promulgated by the NASDAQ Stock Market, Inc.

First California is subject to the accounting oversight and corporate governance requirements of the Sarbanes-Oxley Act of 2002, including, among other things, required executive certification of financial presentations, increased requirements for board audit committees and their members, and enhanced disclosure of controls and procedures and internal controls over financial reporting.

First California's earnings and activities are affected by legislation, by regulations and by local legislative and administrative bodies and decisions of courts in the jurisdictions in which First California and the Bank conduct business. For example, these include limitations on the ability of the Bank to pay dividends to us and our ability to pay dividends to our stockholders. It is the policy of the FRB that bank holding companies should pay cash dividends on common stock only out of income available over the past year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. The policy provides that bank holding companies should not maintain a level of cash dividends that undermines the bank holding company's ability to serve as a source of strength to its banking subsidiaries. Various federal and state statutory provisions limit the amount of dividends that subsidiary banks can pay to their holding companies without regulatory approval. In addition to these explicit limitations, the federal regulatory agencies have general authority to prohibit a banking subsidiary or bank holding company from engaging in an unsafe or unsound banking practice. Depending upon the circumstances, the agencies could take the position that paying a dividend would constitute an unsafe or unsound banking practice. In addition, as discussed below under Regulation of the Bank , a bank holding company such as the Company is required to maintain minimum ratios of Tier 1 capital and total capital to total risk-weighted assets, as well as a minimum ratio of Tier 1 capital to total adjusted quarterly average assets as defined in such regulations.

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Under the terms of the CPP, for so long as any preferred stock issued under the CPP remains outstanding, First California is restricted from paying cash dividends on our common stock, and from making certain repurchases of equity securities, including common stock, without the U.S. Treasury's consent until the third anniversary of the U.S. Treasury's investment in our preferred stock or until the U.S. Treasury has transferred all of the preferred stock it purchased under the CPP to third parties.

### *Regulation of the Bank*

The Bank is extensively regulated under both federal and state law. The Bank, as a California state-chartered bank which is not a member of the Federal Reserve System, is subject to regulation, supervision, and regular examination by the DFI and the FDIC. The Bank's deposits are insured by the FDIC up to the maximum extent provided by law. The regulations of these agencies govern most aspects of the Bank's business. California law exempts all banks from usury limitations on interest rates. Various consumer laws and regulations also affect the Bank's operations, such as the Community Reinvestment Act, the Equal Credit Opportunity Act, the Truth in Lending Act, the Fair Housing Act, the Home Mortgage Disclosure Act, and the Real Estate Settlement Procedures Act. These laws primarily protect depositors and other customers of the Bank, rather than First California or its stockholders.

Various requirements and restrictions under the laws of the State of California and the United States affect the operations of the Bank. State and federal statutes and regulations relate to many aspects of the Bank's operations, including standards for safety and soundness, reserves against deposits, interest rates payable on deposits and loans, investments, mergers and acquisitions, loans to a single borrower dividends, locations of branch offices, fair lending requirements, CRA activities and loans to affiliates. Further, the Bank is required to maintain certain levels of capital.

### *Dividends and Capital Distributions*

Dividends and capital distributions from the Bank constitute the principal source of cash to First California. The Bank is subject to various federal or state statutory and regulatory restrictions on its ability to pay dividends and capital distributions to its shareholder.

Under California law, banks may declare a cash dividend out of their net profits up to the lesser of retained earnings or the net income for the last three fiscal years (less any distributions made to shareholders during such period), or with the prior written approval of the DFI, in an amount not exceeding the greatest of (1) the retained earnings of the Bank, (2) the net income of the Bank for its last fiscal year or (3) the net income of the Bank for its current fiscal year. In addition, under federal law, banks are prohibited from paying any dividends if after making such payment they would fail to meet any of the minimum regulatory capital requirements. The federal regulators also have the authority to prohibit state banks from engaging in any business practices which are considered to be unsafe or unsound, and in some circumstances the regulators might prohibit the payment of dividends on that basis even though such payments would otherwise be permissible.

The Bank may from time to time be permitted to make additional capital distributions to its shareholder with the consent of the DFI. It is not anticipated that such consent could be obtained unless the distributing bank were to remain well capitalized following such distribution.

*Regulatory Capital Guidelines.* Each of the Company and the Bank is required to maintain certain levels of capital. The FRB and the FDIC have substantially similar risk-based capital ratio and leverage ratio guidelines for banking organizations. The guidelines are intended to ensure that banking organizations have adequate capital given the risk levels of assets and off-balance sheet financial instruments. Under the guidelines, banking organizations are required to maintain minimum ratios for Tier 1 capital and total capital to risk-weighted assets (including certain off-balance sheet items, such as letters of credit). For purposes of calculating the ratios, a banking organization's assets and some of its specified off-balance sheet commitments and obligations are

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assigned to various risk categories. A depository institution's or holding company's capital, in turn, is classified in one of three tiers, depending on type:

**Core Capital (Tier 1).** Tier 1 capital includes common equity, retained earnings, qualifying non-cumulative perpetual preferred stock, a limited amount of qualifying cumulative perpetual stock at the holding company level, minority interests in equity accounts of consolidated subsidiaries, and qualifying trust preferred securities less goodwill, most intangible assets and certain other assets.

**Supplementary Capital (Tier 2).** Tier 2 capital includes, among other things, perpetual preferred stock and trust preferred securities not meeting the Tier 1 definition, qualifying mandatory convertible debt securities, qualifying subordinated debt, and allowances for possible loan and lease losses, subject to limitations.

**Market Risk Capital (Tier 3).** Tier 3 capital includes qualifying unsecured subordinated debt.

The following table sets forth the regulatory capital guidelines and the actual capitalization levels for the Bank and the Company as of December 31, 2008 and 2007:

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2008 (in thousands)						
Total capital (to risk weighted assets)						
First California Financial Group, Inc.	\$ 147,680	16.62%	\$ 71,102	3 8.00%		
First California Bank	109,022	12.27%	71,110	3 8.00%	88,888	3 10.00%
Tier I capital (to risk weighted assets)						
First California Financial Group, Inc.	139,530	15.70%	35,551	3 4.00%		
First California Bank	100,873	11.35%	35,555	3 4.00%	53,333	3 6.00%
Tier I capital (to average assets)						
First California Financial Group, Inc.	139,530	12.77%	43,699	3 4.00%		
First California Bank	100,873	9.26%	43,568	3 4.00%	54,460	3 5.00%
December 31, 2007						
Total capital (to risk weighted assets)						
First California Financial Group, Inc.	\$ 115,387	13.35%	\$ 69,167	3 8.00%		
First California Bank	102,826	11.98%	68,687	3 8.00%	85,858	3 10.00%
Tier I capital (to risk weighted assets)						
First California Financial Group, Inc.	107,460	12.43%	34,583	3 4.00%		
First California Bank	94,899	11.05%	34,343	3 4.00%	51,515	3 6.00%
Tier I capital (to average assets)						
First California Financial Group, Inc.	107,460	10.42%	41,248	3 4.00%		
First California Bank	94,899	9.24%	41,065	3 4.00%	51,332	3 5.00%

We recognize that a strong capital position is vital to growth, continued profitability, and depositor and investor confidence. Our policy is to maintain sufficient capital at not less than the well-capitalized thresholds established by banking regulators.

## Edgar Filing: First California Financial Group, Inc. - Form S-1/A

*Basel and Basel II Accords*, The current risk-based capital guidelines which apply to First California and the Bank are based upon the 1988 capital accord of the International Basel Committee on Banking Supervision. A

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new international accord, referred to as Basel II, became mandatory for large or core international banks outside the United States in 2008 (total assets of \$250 billion or more or consolidated foreign exposures of \$10 billion or more). Basel II emphasizes internal assessment of credit, market and operational risk, as well as supervisory assessment and market discipline in determining minimum capital requirements. It is optional for other banks, and if adopted, must first be complied with in a parallel run for two years along with the existing Basel I standards. In January 2009, the Basel Committee proposed to reconsider regulatory-capital standards, supervisory and risk-management requirements and additional disclosures to further strengthen the Basel II framework in response to recent worldwide developments. First California is not required to comply with Basel II. First California elected not to apply the Basel II requirements when they became effective.

*Prompt Corrective Action and Other General Enforcement Authority.* The Federal Deposit Insurance Corporation Improvement Act, or FDICIA, requires each federal banking agency to take prompt corrective action to resolve the problems of insured depository institutions, including but not limited to those that fall below one or more prescribed minimum capital ratios. The federal banking agencies possess broad powers to take prompt corrective action to resolve the problems of insured banks. Each federal banking agency has issued regulations defining five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. Under the regulations, a bank shall be deemed to be:

well capitalized if it has a total risk-based capital ratio of 10.0% or more, has a Tier 1 risk-based capital ratio of 6.0% or more, has a leverage capital ratio of 5.0% or more, and is not subject to specified requirements to meet and maintain a specific capital level for any capital measure;

adequately capitalized if it has a total risk-based capital ratio of 8.0% or more, a Tier 1 risk-based capital ratio of 4.0% or more, and a leverage capital ratio of 4.0% or more (3.0% under certain circumstances) and does not meet the definition of well capitalized ;

undercapitalized if it has a total risk-based capital ratio that is less than 8.0%, a Tier 1 risk-based capital ratio that is less than 4.0%, or a leverage capital ratio that is less than 4.0% (3.0% under certain circumstances);

significantly undercapitalized if it has a total risk-based capital ratio that is less than 6.0%, a Tier 1 risk-based capital ratio that is less than 3.0% or a leverage capital ratio that is less than 3.0%; and

critically undercapitalized if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%.

Banks are prohibited from paying dividends or management fees to controlling persons or entities if, after making the payment, the bank would be undercapitalized, that is, the bank fails to meet the required minimum level for any relevant capital measure. Asset growth and branching restrictions apply to undercapitalized banks. Banks classified as undercapitalized are required to submit acceptable capital plans guaranteed by its holding company, if any. Broad regulatory authority was granted with respect to significantly undercapitalized banks, including forced mergers, growth restrictions, ordering new elections for directors, forcing divestiture by its holding company, if any, requiring management changes, and prohibiting the payment of bonuses to senior management. Even more severe restrictions are applicable to critically undercapitalized banks, those with capital at or less than 2%. Restrictions for these banks include the appointment of a receiver or conservator. All of the federal banking agencies have promulgated substantially similar regulations to implement this system of prompt corrective action.

A bank, based upon its capital levels, that is classified as well capitalized, adequately capitalized or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for a hearing, determines that an unsafe or unsound condition, or an unsafe or unsound practice, warrants such treatment. At each successive lower capital category, an insured bank is subject to more restrictions. The federal banking agencies, however, may not treat an institution as critically undercapitalized unless its capital ratios actually warrant such treatment.

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In addition to measures taken under the prompt corrective action provisions, insured banks may be subject to potential enforcement actions by the federal banking agencies for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation or any condition imposed in writing by the agency or any written agreement with the agency. Enforcement actions may include the imposition of a conservator or receiver, the issuance of a cease-and-desist order that can be judicially enforced, the termination of insurance of deposits (in the case of a depository institution), the imposition of civil money penalties, the issuance of directives to increase capital, the issuance of formal and informal agreements, the issuance of removal and prohibition orders against institution-affiliated parties. The enforcement of such actions through injunctions or restraining orders may be based upon a judicial determination that the agency would be harmed if such equitable relief was not granted.

The DFI, as the primary regulator for California state-chartered banks, also has a broad range of enforcement measures, from cease and desist powers and the imposition of monetary penalties to the ability to take possession of a bank, including causing its liquidation.

*Safety and Soundness Standards.* The federal banking agencies have adopted guidelines designed to assist the federal banking agencies in identifying and addressing potential safety and soundness concerns before capital becomes impaired. The guidelines set forth operational and managerial standards relating to (1) internal controls, information systems and internal audit systems; (2) loan documentation; (3) credit underwriting; (4) asset growth; (5) earnings; and (6) compensation, fees and benefits.

In addition, the federal banking agencies have also adopted safety and soundness guidelines with respect to asset quality and for evaluating and monitoring earnings to ensure that earnings are sufficient for the maintenance of adequate capital and reserves. These guidelines provide six standards for establishing and maintaining a system to identify problem assets and prevent those assets from deteriorating. Under these standards, an insured depository institution should (1) conduct periodic asset quality reviews to identify problem assets; (2) estimate the inherent losses in problem assets and establish reserves that are sufficient to absorb estimated losses; (3) compare problem asset totals to capital; (4) take appropriate corrective action to resolve problem assets; (5) consider the size and potential risks of material asset concentrations; and (6) provide periodic asset quality reports with adequate information for management and the board of directors to assess the level of asset risk.

*Transactions with Affiliates.* Under Sections 23A and 23B of the Federal Reserve Act and the FRB's Regulation W, loans by the Bank to affiliates, investments by them in affiliates' stock, and taking affiliates' stock as collateral for loans to any borrower is limited to 10% of the Bank's capital, in the case of any one affiliate, and is limited to 20% of the Bank's capital, in the case of all affiliates. The Bank's holding company and any subsidiaries it may purchase or organize are deemed to be affiliates of the Bank within the meaning of Section 23A and 23B and Regulation W. In addition, transactions between the Bank and other affiliates must be on terms and conditions that are consistent with safe and sound banking practices; in particular, a bank and its subsidiaries generally may not purchase from an affiliate a low-quality asset, as defined in the Federal Reserve Act. These restrictions also prevent a bank holding company and its other affiliates from borrowing from a banking subsidiary of the bank holding company unless the loans are secured by marketable collateral of designated amounts. The Company or its successors and the Bank are also subject to certain restrictions with respect to engaging in the underwriting, public sale and distribution of securities.

*Loans to Insiders.* Extensions of credit by the Bank to insiders of both the Bank and First California are subject to prohibitions and other restrictions imposed by federal regulations. For purposes of these limits, insiders include directors, executive officers and principal shareholders of the Bank or First California and their related interests. The term related interest means a company controlled by a director, executive officer or principal shareholder of the Bank or First California. The Bank may not extend credit to an insider of the Bank or First California unless the loan is made on substantially the same terms as, and subject to credit underwriting procedures that are no less stringent than, those prevailing at the time for comparable transactions with non-insiders. Under federal banking regulations, the Bank may not extend a loan to insiders in an amount greater

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than \$500,000 without prior board approval (with any interested person abstaining from participating directly or indirectly in the voting). The federal regulations place additional restrictions on loans to executive officers, and generally prohibit loans to executive officers other than for certain specified purposes. The Bank is required to maintain records regarding insiders and extensions of credit to them.

*Federal Deposit Insurance.* The FDIC insures our customer deposits through the Deposit Insurance Fund ( DIF ) up to prescribed limits for each depositor. Pursuant to the EESA, the basic limit on federal deposit insurance coverage was temporarily raised from \$100,000 to \$250,000 per depositor. The legislation provides that this \$250,000 limit will be in effect until December 31, 2013.

The FDIC utilizes a risk-based assessment system that imposes insurance premiums based upon a risk matrix that takes into account a bank's capital level and supervisory rating. Effective February 2009, the FDIC adopted a rule to uniformly increase 2009 FDIC deposit assessment rates by 7 to 9 cents for every \$100 of domestic deposits. For banks in Risk Category I, the deposit assessment is now 12 to 16 cents for total qualified deposits compared to 5 to 7 cents in the prior two years. On May 22, 2009, the FDIC adopted a final rule levying a five basis point special assessment on each insured depository institution's assets minus its Tier 1 capital as of June 30, 2009. The final rule permits the FDIC to levy up to two additional special assessments of up to five basis points each during 2009 if it estimates that the Deposit Insurance Fund reserve ratio will fall to a level that the FDIC's board of directors believes would adversely affect public confidence or to a level that will be close to or below zero.

On October 16, 2008, the FDIC announced the TLGP. The final rule was adopted on November 26, 2008. The FDIC stated that its purpose is to strengthen confidence and encourage liquidity in the banking system through two limited guarantee programs: the Debt Guarantee Program, or DGP, and the Transaction Account Guarantee Program. Insured depository institutions and most U.S. bank holding companies are eligible to participate. Participation in both programs is voluntary and the Bank elected to participate in both parts of the TLGP. The DGP guarantees newly issued senior unsecured debt that is issued on or before June 30, 2009 and matures before June 12, 2012. Institutions participating in the DGP are charged a fee of 50 to 100 basis points for new unsecured issuances based on the term to maturity of the newly issued debt. As of the date of this prospectus, the Bank has not issued any new debt under the DGP. The Transaction Account Guarantee Program guarantees the entire balance of non-interest bearing deposit transaction accounts (defined as transaction accounts bearing interest rates of 50 basis points or less), through December 31, 2009. Although the program has been extended through June 30, 2010, the Bank elected to opt out of this extension. Institutions participating in the Transaction Account Guarantee Program are charged a 10-basis point fee on the balance of non-interest bearing deposit transaction accounts exceeding the existing deposit insurance limit of \$250,000.

The FDIC recently decided to require depository institutions to prepay deposit insurance premiums. On November 12, 2009, the FDIC issued a final rule requiring all insured depository institutions to prepay on December 30, 2009 their estimated assessments for the fourth quarter of 2009, and for all of 2010, 2011 and 2012. Under the rule, the assessment rate for the fourth quarter of 2009 and for 2010 will be based on each institution's total base assessment rate for the third quarter of 2009, and the assessment rate for 2011 and 2012 will be equal to the third quarter assessment rate plus an additional 3 basis points. In addition, each institution's base assessment rate for each period will be calculated using its third quarter assessment base, adjusted quarterly for an estimated 5% annual growth rate in the assessment base through the end of 2012. Based on our FDIC quarterly invoice for September 30, 2009, we estimate that our prepayment amount should not exceed \$10 million.

*Money Laundering and Currency Controls.* Various federal statutory and regulatory provisions are designed to enhance record-keeping and reporting of currency, foreign transactions and suspicious transactions. Pursuant to the Bank Secrecy Act, financial institutions must report high levels of currency transactions or face the imposition of civil monetary penalties for reporting violations. The Money Laundering Control Act imposes sanctions, including revocation of federal deposit insurance, for institutions convicted of money laundering.

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The International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 (IMLAFATA), a part of the USA Patriot Act, authorizes the Secretary of the Treasury, in consultation with the heads of other government agencies, to adopt special measures applicable to banks and other financial institutions to enhance record-keeping and reporting requirements for certain financial transactions that are of primary money laundering concern. Among its other provisions, IMLAFATA requires each financial institution to: (1) establish an anti-money laundering program; (2) establish due diligence policies, procedures and controls with respect to its private banking accounts and correspondent banking accounts involving individuals and certain foreign banks; and (3) avoid establishing, maintaining, administering, or managing correspondent accounts in the United States for, or on behalf of, a foreign bank that does not have a physical presence in any country. In addition, IMLAFATA contains a provision encouraging cooperation among financial institutions, regulatory authorities and law enforcement authorities with respect to individuals, entities and organizations engaged in, or reasonably suspected of engaging in, terrorist acts or money laundering activities.

The U.S. Treasury's regulations implementing IMLAFATA mandate that federally-insured banks and other financial institutions establish customer identification programs designed to verify the identity of persons opening new accounts, maintain the records used for verification, and determine whether the person appears on any list of known or suspected terrorists or terrorist organizations.

*Community Reinvestment Act and Fair Lending.* The Bank is subject to certain fair lending requirements and reporting obligations involving home mortgage lending operations and Community Reinvestment Act, or CRA, activities. The CRA is intended to encourage insured depository institutions, while operating safely and soundly, to help meet the credit needs of their communities. The CRA specifically directs the federal bank regulatory agencies, in examining insured depository institutions, to assess their record of helping to meet the credit needs of their entire community, including low-and moderate-income neighborhoods, consistent with safe and sound banking practices. The CRA further requires the agencies to take a financial institution's record of meeting its community credit needs into account when evaluating applications for, among other things, domestic branches, consummating mergers or acquisitions, or holding company formations. The Bank's compliance with the CRA is reviewed and evaluated by the FDIC, which assigns the Bank a publicly available CRA rating at the conclusion of the examination.

The federal banking agencies have adopted regulations which measure a bank's compliance with its CRA obligations on a performance-based evaluation system. This system bases CRA ratings on an institution's actual lending service and investment performance rather than the extent to which the institution conducts needs assessments, documents community outreach or complies with other procedural requirements. In connection with its assessment of CRA performance, the FDIC assigns a rating of outstanding, satisfactory, needs to improve or substantial noncompliance. Failure of an institution to receive at least a Satisfactory rating could inhibit such institution or its holding company from undertaking certain activities, including acquisitions.

The Bank had a CRA rating of Satisfactory as of its most recent regulatory examination.

*Sarbanes-Oxley Act.* On July 30, 2002, the President signed into law the Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act aims to restore the credibility lost as a result of high profile corporate scandals by addressing, among other issues, corporate governance, auditing and accounting, executive compensation and enhanced and timely disclosure of corporate information. The NASDAQ Stock Market has adopted corporate governance rules intended to allow shareholders to more easily and effectively monitor the performance of companies and directors. The principal provisions of the Sarbanes-Oxley Act, many of which have been interpreted through regulations released in 2003, provide for and include, among other things: (1) the creation of the Public Company Accounting Oversight Board; (2) auditor independence provisions that restrict non-audit services that accountants may provide to their audit clients; (3) additional corporate governance and responsibility measures, including the requirement that the chief executive officer and chief financial officer of a public company certify financial statements; (4) the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer's securities by directors and senior officers in the twelve month period

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following initial publication of any financial statements that later require restatement; (5) an increase in the oversight of, and enhancement of certain requirements relating to, audit committees of public companies and how they interact with that company's independent auditors; (6) requirements that audit committee members must be independent and are barred from accepting consulting, advisory or other compensatory fees from the issuer; (7) requirements that companies disclose whether at least one member of the audit committee is a financial expert (as such term is defined by the SEC and if not disclosed, why the audit committee does not have a financial expert; (8) expanded disclosure requirements for corporate insiders, including accelerated reporting of stock transactions by insiders and a prohibition on insider trading during pension blackout periods; (9) a prohibition on personal loans to directors and officers, except certain loans made by insured financial institutions on non-preferential terms and in compliance with other bank regulatory requirements; (10) disclosure of a code of ethics and filing a Form 8-K for a change or waiver of such code; (11) a range of enhanced penalties for fraud and other violations; and (12) expanded disclosure and certification relating to an issuer's disclosure controls and procedures and internal controls over financial reporting.

As a result of the Sarbanes-Oxley Act, and its implementing regulations, we have incurred substantial costs to interpret and ensure compliance with the law and its regulations. Future changes in the laws, regulation, or policies that impact us cannot necessarily be predicted and may have a material effect on our business and earnings.

*Environmental Regulation.* Federal, state and local laws and regulations regarding the discharge of harmful materials into the environment may have an impact on the Bank. Since the Bank is not involved in any business that manufactures, uses or transports chemicals, waste, pollutants or toxins that might have a material adverse effect on the environment, the Bank's primary exposure to environmental laws is through its lending activities and through properties or businesses the Bank may own, lease or acquire. Based on a general survey of the Bank's loan portfolio, conversations with local appraisers and the type of lending currently and historically done by the Bank, management is not aware of any potential liability for hazardous waste contamination that would be reasonably likely to have a material adverse effect on the Company or its successors as of the date of this prospectus.

*Safeguarding of Customer Information and Privacy.* In 1970, the Federal Fair Credit Reporting Act (the FCRA) was enacted to insure the confidentiality, accuracy, relevancy and proper utilization of consumer credit report information. The FCRA affirmatively preempts state law in a number of areas, including the ability of entities affiliated by common ownership to share and exchange information freely, and the requirements on credit bureaus to reinvestigate the contents of reports in response to consumer complaints, among others.

The FACT Act, (Fair and Accurate Credit Transaction Act) became law in 2003, effectively extending and amending provisions of the Fair Credit Reporting Act (FCRA). The FACT Act created many new responsibilities for consumer reporting agencies and users of consumer reports. It contains many new consumer disclosure requirements as well as provisions to address identity theft.

The FRB and other bank regulatory agencies have adopted guidelines for safeguarding confidential, personal customer information. These guidelines require financial institutions to create, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, protect against any anticipated threats or hazard to the security or integrity of such information and protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer. The Bank has adopted a customer information security program to comply with such requirements.

Federal banking rules also limit the ability of banks and other financial institutions to disclose non-public information about consumers. Pursuant to these rules, financial institutions must provide: (1) initial notices to customers about their privacy policies, describing the conditions under which they may disclose nonpublic personal information to nonaffiliated third parties and affiliates; (2) annual notices of their privacy policies to

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current customers; and (3) a reasonable method for customers to opt out of disclosures to nonaffiliated third parties. These privacy provisions affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. We have implemented our privacy policies in accordance with the law.

In recent years, a number of states have implemented their own versions of privacy laws. For example, in 2003, California adopted standards that are more restrictive than federal law, allowing bank customers the opportunity to bar financial companies from sharing information with their affiliates. More specifically, the California Financial Information Privacy Act requires a financial institution to provide specific information to a consumer related to the sharing of that consumer's nonpublic personal information. The Act allows a consumer to direct the financial institution not to share his or her nonpublic personal information with affiliated or nonaffiliated companies with which a financial institution has contracted to provide financial products and services, and requires that permission from each such consumer be acquired by a financial institution prior to sharing such information.

*Patriot Act.* On October 26, 2001, the President signed into law comprehensive anti-terrorism legislation, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, known as the USA Patriot Act. The USA Patriot Act was designed to deny terrorists and others the ability to obtain access to the United States financial system, and has significant implications for depository institutions and other businesses involved in the transfer of money. The USA Patriot Act, as implemented by various federal regulatory agencies, requires financial institutions, including the Bank, to implement new policies and procedures or amend existing policies and procedures with respect to, among other matters, anti-money laundering, compliance, suspicious activity and currency transaction reporting and due diligence on customers. The USA Patriot Act and its underlying regulations also permit information sharing for counter-terrorist purposes between federal law enforcement agencies and financial institutions, as well as among financial institutions, subject to certain conditions, and require the FRB and other federal banking agencies to evaluate the effectiveness of an applicant in combating money laundering activities when considering applications filed under Section 3 of the BHCA or the Bank Merger Act. The Bank has adopted comprehensive policies and procedures to address the requirements of the USA Patriot Act. The Bank believes that the ongoing cost of compliance with the USA Patriot Act is not likely to be material to the Bank.

*Other Aspects of Banking Law.* The Bank is also subject to federal statutory and regulatory provisions covering, among other things, security procedures, insider and affiliated party transactions, management interlocks, electronic funds transfers, funds availability, and truth-in-savings. There are also a variety of federal statutes which regulate acquisitions of control and the formation of bank holding companies.

### ***Impact of Monetary Policies***

Banking is a business that depends on rate differentials. In general, the difference between the interest rate paid by a bank on its deposits and its other borrowings and the interest rate earned on its loans, securities and other interest-earning assets comprises the major source of a Bank's earnings. These rates are highly sensitive to many factors which are beyond the Bank's control and, accordingly, the earnings and growth of the Bank are subject to the influence of economic conditions generally, both domestic and foreign, including inflation, recession, and unemployment; and also to the influence of monetary and fiscal policies of the United States and its agencies, particularly the FRB. The FRB implements national monetary policy, such as seeking to curb inflation and combat recession, by:

Open-market dealings in United States government securities;

Adjusting the required level of reserves for financial institutions subject to reserve requirements; and

Adjusting the discount rate applicable to borrowings by banks which are members of the Federal Reserve System.

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The actions of the FRB in these areas influence the growth of bank loans, investments, and deposits and also affect interest rates. The nature and timing of any future changes in the FRB's policies and their impact on the Company and its successors and the Bank cannot be predicted; however, depending on the degree to which our interest-earning assets and interest-bearing liabilities are rate sensitive, increases in rates would have a temporary effect of increasing our net interest margin, while decreases in interest rates would have the opposite effect. In addition, adverse economic conditions could make a higher provision for loan losses a prudent course and could cause higher loan charge-offs, thus adversely affecting our net income or other operating costs.

### ***Properties***

The Bank owns its former executive offices located at 1100 Paseo Camarillo, Camarillo, California. The building has approximately 5,100 square feet of space and adequate parking facilities.

The Bank also leases approximately 13,880 square feet of space for administrative functions which are located at 1880 Century Park East, Los Angeles, California. The lease term expires in April 2014. Approximately half of this space is sublet through the lease expiration in 2014.

The Bank leases approximately 21,901 square feet of space at Westlake Park Place, 3027 Townsgate Road, Westlake Village, California to serve as the Company's administrative headquarters. The lease term expires in 2018.

The Bank owns its main branch located at 1150 Paseo Camarillo, Camarillo, California. The building has approximately 9,032 square feet of space and adequate parking facilities.

The Bank owns its Irvine Branch Office located at 19752 MacArthur Blvd., Irvine, California 92612. The building has approximately 21,000 square feet of space and adequate parking facilities.

The Bank also owns its Torrance Branch located at 2200 Sepulveda Blvd., Torrance, California.

The Bank leases approximately 1,880 square feet of space for its Century City Branch Office located at 1880 Century Park East, Los Angeles, California. The lease will expire in June 2014.

The Bank leases approximately 3,100 square feet of space for its former El Segundo Branch Office located at 1960 E. Grand Avenue, El Segundo, California. This location was closed in 2008 and the Bank is attempting to sublease this space. The lease term expires in February 2011.

The Bank leases approximately 1,650 square feet of space for its Encino Branch Office located at 16661 Ventura Boulevard, Encino, California. The lease term will expire in May 2010.

The Bank leases approximately 3,000 square feet of space for its Glendale Branch Office located at 505 North Brand Boulevard, Glendale, California. The lease has an initial term of five years and will expire in November, 2013.

The Bank also leases approximately 1,672 square feet of space for its Oxnard Branch Office located at 300 Esplanade Drive, Suite 102, Oxnard, California. The lease will expire in April, 2010.

The Bank also leases approximately 3,478 square feet of space for its former Sherman Oaks Loan Production Office located at 13245 Riverside Dr. Suite 540, Sherman Oaks, California. The lease term is for five years and commenced on March 1, 2006. This Bank vacated this facility upon the opening of the new company headquarters in the third quarter of 2008.

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The Bank also leases approximately 5,000 square feet of space for its Simi Valley Branch Office located at Simi Valley Towne Center, Simi Valley, California. The lease term commenced in January 2006 and is for 20 years.

The Bank also leases approximately 3,850 square feet of space for its Thousand Oaks Branch Office located at 11 E. Hillcrest Drive, Suite A, Thousand Oaks, California. The lease term commenced in October 2003 and is for 10 years with two 5-year renewal options.

The Bank also leases approximately 4,000 square feet of space for its Westlake Village Branch Office located at 32111 Agoura Road, Westlake Village, California. The lease term will expire in September 2014.

The Bank leases approximately 4,560 square feet of space for its Irwindale Branch Office located at 15622 Arrow Highway, Irwindale, California. The lease term will expire in May 2014.

The Bank leases approximately 7,000 square feet of space for its Escondido Branch Office located at 355 West Grand Avenue, Escondido, California. The lease term will expire in December 2009.

The Bank leases approximately 5,000 square feet of space for its Temecula Branch Office located at 27645 Jefferson Avenue, Temecula, California. The lease term will expire in May 2012.

The Bank leases approximately 5,100 square feet of space for its Brea Branch Office located at 10 Pointe Drive, Suite 130, Brea, California. The lease term will expire in May 2014.

The Bank leases approximately 4,500 square feet of space for its Palm Desert Branch Office located at 78-000 Fred Waring Drive, Suite 100, Palm Desert, California. The lease term will expire in June 2014.

The Bank leases approximately 8,500 square feet of space for its Redlands Branch Office located at 218 East State Street, Redlands, California. The lease term will expire in July 2014.

The Bank believes that its premises will be adequate for present and anticipated needs. The Bank also believes that it has adequate insurance to cover its premises.

***Legal Proceedings***

The nature of First California's business causes it to be involved in ordinary routine legal proceedings from time to time. Although the ultimate outcome and amount of liability, if any, with respect to these legal proceedings to which we are currently a party cannot presently be ascertained with certainty, in the opinion of management, based upon information currently available to us, any resulting liability is not likely to have a material adverse affect on the Company's consolidated financial condition, results of operations or cash flow.

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**MANAGEMENT**

**Directors**

**Richard D. Aldridge**

Director since 2007

Age 62

Mr. Aldridge served as the Vice Chairman of the Board of FCB from October 2005 until the completion of the mergers, and was a director from 1993 until the completion of the mergers. He was employed for 19 years by Weyerhaeuser Company in Longview, Washington, where he was a business manager. For the past 17 years, Mr. Aldridge has been the President and CEO of B & R Supply, Inc., an industrial tool distributor. Since 1990, he has held investments in multiple community banks and real estate in Ventura County. Mr. Aldridge also served as interim Chairman of the Board of FCB from 1998 to 1999. Mr. Aldridge is the brother-in-law of John W. Birchfield.

**Donald E. Benson**

Director since 2006

Age 79

Mr. Benson served as a director of National Mercantile from 1998 until the completion of the mergers. Mr. Benson is Executive Vice President and a director of Marquette Financial Companies, Minneapolis, Minnesota, a financial services holding company (formerly Marquette Bancshares, Inc.). He has served in that position since 1992. Mr. Benson is also a director of MAIR Holdings, Inc., a commuter airline, Mass Mutual Corporate Investors, a mutual fund, and Mass Mutual Participation Investors, a mutual fund.

**John W. Birchfield**

Director since 2007

Age 58

Mr. Birchfield served as the Chairman of the Board of FCB from October 2005 until the completion of the mergers, and was a director from 1993 until the completion of the mergers. Since 1995, Mr. Birchfield has served as the Chairman of the Board at B & R Supply Inc. He is also the managing partner of Ralston Properties LP, a privately held real estate management company. Mr. Birchfield is the brother-in-law of Richard D. Aldridge. Mr. Birchfield currently serves as the Chairman of the Board for First California Bank.

**Joseph N. Cohen**

Director since 2006

Age 62

Mr. Cohen served as a director of National Mercantile from 1998 until the completion of the mergers. Mr. Cohen has been President of American Entertainment Investors, Inc., a media financing and consulting firm, since February 1996, a Principal of Abel's Hill Capital Corp., an investment banking firm, since October 1996, and a Principal of EFS Advisors, LLC, which co-manages an entertainment investment fund, since June 2006.

**Robert E. Gipson**

Director since 2007

Age 63

Mr. Gipson served as a director of National Mercantile from 1996 until the completion of the mergers, and was Chairman of National Mercantile from June 1997 until the completion of the mergers, and was Chairman of Mercantile National Bank from June 1997 to December 1998. Mr. Gipson is President of Alpha Analytics Investment Group, LLC, a registered investment advisor, and has served in that capacity since its organization in 1998. Mr. Gipson is Of Counsel to the law firm of Gipson Hoffman & Pancione and has been a lawyer with that firm since 1982. Mr. Gipson is also President of Corporate Management Group, Inc., a financial management company, since 1988. Mr. Gipson currently serves as Chairman of the Board for First California.

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**Antoinette T. Hubenette, M.D.**

Director since 2006

Age 60

Dr. Hubenette served as a director of National Mercantile from 1998 until the completion of the mergers. Dr. Hubenette was President and a director of Cedars-Sinai Medical Group, Beverly Hills, California (formerly Medical Group of Beverly Hills), a physicians' medical practice group, from 1994 to 2000. She has been a practicing physician since 1982. She continues in part-time practice of general internal medicine.

**C. G. Kum**

Director since 2007

Age 55

Mr. Kum began his banking career in 1977 as a corporate banking trainee with Bank of California in San Francisco, California. He served as Regional Vice President and Manager of Asset Quality Administration for United Banks of Colorado from 1984 until 1987. Mr. Kum then served as Vice President and Division Manager of Special Projects Division for Colorado National Bank from 1987 until 1993. Mr. Kum moved to California in 1993 and served as Executive Vice President and Chief Credit Officer of City Commerce Bank from 1993 until 1999.

Mr. Kum was appointed to his position as the President and the Chief Executive Officer of First California Bank (formerly known as Camarillo Community Bank) on September 1, 1999. Under his leadership, the Bank grew from total assets of \$100 million and two branches in 1999, to total combined assets of over \$1.4 billion and 18 branches of First California as of March 31, 2009. He is a graduate of the University of California at Berkeley and received his Masters Degree in Business Administration from Pepperdine University. Mr. Kum also is a graduate of Stonier Graduate School of Banking. He was President of the Board of Directors of Community Bankers of California, an association of California community bank presidents, for the fiscal year 2005-06.

**Syble R. Roberts**

Director since 2007

Age 72

Ms. Roberts was a director of FCB (formerly known as Camarillo Community Bank) from 1989, until the completion of the mergers, and served as chairman of the personnel committee. Ms. Roberts was also a Founding Director of City Commerce Bank, Santa Barbara, opened in 1978 and now owned by Rabobank, N.A. Ms. Roberts' background is in the legal, title insurance and escrow, and real estate investment fields. Ms. Roberts became a specialist in the escrow field of multiple tax-deferred exchanges and long order leasehold estates and was involved in the start-ups of a title insurance company and several escrow and mortgage banking companies.

**Sung Won Sohn, Ph.D**

Director since 2009

Age 66

Effective November 2, 2009, Sung Won Sohn, Ph.D., joined the Board of Directors of First California and its operating subsidiary, First California Bank. Previously, Dr. Sohn was President and Chief Executive Officer of Hanmi Financial Corporation from 2005 through 2007. He joined Norwest Bank Minneapolis in 1974 and held various positions of increasing responsibility focusing on macro-economic forecasting, monetary policy, asset-liability management and regulatory matters in relation to financial institutions. Dr. Sohn was later named senior vice president at the parent company, Norwest Corporation. After the acquisition of Wells Fargo by Norwest Corporation, Dr. Sohn was appointed Chief Economic Officer of the combined entity now known as Wells Fargo & Company. Dr. Sohn is currently the Martin V. Smith Professor at California State University, Channel Islands. He also serves as Vice Chairman of the board at Forever 21, a leading, multi-national apparel retailer, and sits on the board of directors for Claremont Graduate University and the Music Center in Los Angeles.

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**Thomas Tignino**

Director since 2007

Age 62

Mr. Tignino served as a director of FCB from January 2006 until the completion of the mergers. Mr. Tignino is the founder and President of Thomas Tignino & Associates, a multi-service accountancy firm established in 1980. His firm specializes in tax planning and compliance, estate planning and investment review.

**Table of Contents****Executive Officers**

The table below sets forth our current executive officers, their ages as of December 4, 2009, and their positions.

Name	Age	Position
C. G. Kum	55	Director, President and Chief Executive Officer of the Company and the Bank
Romolo Santarosa	53	Executive Vice President and Chief Financial Officer of the Company and the Bank
Cheryl Knight	56	Executive Vice President and Chief Risk Officer of the Bank
Donald Macaulay	60	Executive Vice President and Manager of the Business Banking Division of the Bank
Edmond Sahakian	46	Senior Vice President and Manager of the Retail Banking Division of the Bank
William Schack	47	Senior Vice President and Chief Credit Officer of the Bank

As used throughout this prospectus, the term executive officer means our President and Chief Executive Officer, our Senior Vice President and Manager of the Retail Banking Division, our Executive Vice President and Chief Financial Officer, our Executive Vice President and Chief Risk Officer, and our Executive Vice President, Manager of the Business Banking Division. Our Chairman of the Board, Corporate Secretary and other Vice Presidents are not executive officers.

**Biographical Information Regarding Our Executive Officers**

*C. G. Kum, Director, President and Chief Executive Officer.* Mr. Kum began his banking career in 1977 as a corporate banking trainee with Bank of California in San Francisco, California. He served as Regional Vice President and Manager of Asset Quality Administration for United Banks of Colorado from 1984 until 1987. Mr. Kum then served as Vice President and Division Manager of Special Projects Division for Colorado National Bank from 1987 until 1993. Mr. Kum moved to California in 1993 and served as Executive Vice President and Chief Credit Officer of City Commerce Bank from 1993 until 1999.

Mr. Kum was appointed to his position as the President and the Chief Executive Officer of First California Bank (formerly known as Camarillo Community Bank) on September 1, 1999. Under his leadership, the Bank grew from total assets of \$100 million and two branches in 1999, to total combined assets of over \$1.4 billion and 18 branches as of March 31, 2009. He is a graduate of the University of California at Berkeley and received his Masters Degree in Business Administration from Pepperdine University. Mr. Kum also is a graduate of Stonier Graduate School of Banking. He was President of the Board of Directors of Community Bankers of California, an association of California community bank presidents, for the fiscal year 2005-06.

*Romolo Santarosa, Executive Vice President and Chief Financial Officer.* Mr. Santarosa began his banking career in 1991 with Shawmut National Corporation in Hartford, Connecticut as its Controller. In 1995, Mr. Santarosa moved to Los Angeles and joined Sanwa Bank California, serving as Controller until 1997. He then served as Chief Financial Officer of Southern Pacific Bank from 1997 until 2000, of Eldorado Bancshares, Inc. from 2000 to 2001, and of Treasury Bank, N.A. from 2001 to 2002.

Mr. Santarosa joined First California Bank in November 2002 as a member of Executive Management responsible for finance, accounting, investor relations, technology and bank operations. Mr. Santarosa has been an integral part of the Bank's growth and success in the past seven years.

A native of western New York, Mr. Santarosa graduated from Ithaca College in 1978 and joined the Buffalo office of Price Waterhouse to begin his career in public accounting with a focus in banking, insurance and venture capital clients. He subsequently transferred to the Hartford office of Price Waterhouse in 1985. Mr. Santarosa is a certified public accountant in New York and Connecticut. In addition, he is a member of the

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American Institute of CPAs, the California State Society of CPAs, a former chairman of the Finance and Accounting Commission of the Bank Administration Institute and a Director of Data Center, Inc., a full-service bank technology company.

*Cheryl Knight, Executive Vice President and Chief Risk Officer.* Ms. Knight began her banking career in 1972 at Union Bank in construction loan administration. Ms. Knight worked for several small- to mid-sized financial institutions until 1996 when she joined Deloitte & Touche LLP in Los Angeles as Managing Consultant in their Financial Institutions Advisory Group. During her time at Deloitte, she assisted various financial institutions in complying with regulatory agreements, enhancing the credit process, and consulting on risk management programs. In 1998, Ms. Knight joined Montecito Bank & Trust as Senior Vice President and Chief Credit Officer, and was promoted to Executive Vice President and appointed Chief Risk Officer in 2005. Ms. Knight left Montecito Bank & Trust to join First California Bank in March 2007 as Executive Vice President and Chief Risk Officer to implement an enterprise-wide risk management program and direct compliance activities.

Ms. Knight has also served on the Board of Directors of California Community Reinvestment Group since 2005 and is currently Vice Chair and a member of its Executive Committee. California Community Reinvestment Group is not affiliated with First California Bank. Their mission is consistent with the Community Reinvestment Act in creating affordable housing throughout California through innovative financing and investment programs.

*Donald W. Macaulay, Executive Vice President and Manager of the Business Banking Division.* Mr. Macaulay began his banking career in 1976 at Cape Cod Bank and Trust in Massachusetts, where he assumed positions of increasing responsibilities, including regional loan manager, overseeing ten loan offices. He was also an area president managing the west coast region of Florida for SouthTrust Bank, which was acquired by Wachovia Corporation. Mr. Macaulay also served as an area president at First Community Bancshares, responsible for the Virginia and North Carolina markets. Most recently, from 2003 through 2005, he held management positions with Union Bank of California and from 2005 until joining First California Bank, he served as senior vice president/business banking manager at Community West Bank, both in the Southern California area. Mr. Macaulay joined First California Bank in January 2009 as Executive Vice President and Manager of the Business Banking Division.

Mr. Macaulay received his bachelor's degree in business administration from Bryant University in Rhode Island and is a graduate of Williams College School of Banking.

*Edmond Sahakian, Senior Vice President and Manager of the Retail Banking Division.* Mr. Sahakian began his banking career with Home Savings of America in 1986 where he progressed to the position of Vice President Retail Banking Manager until 1997. Mr. Sahakian held management positions with California Federal Bank and Countrywide Home Loans from 1997 to 2001. In 2001, Mr. Sahakian rejoined California Federal Bank and served as a Vice President during their subsequent acquisition in 2002 by Citibank. Mr. Sahakian led the successful integration efforts for the Central Coast Region for Citibank. In 2004, Mr. Sahakian joined First California Bank as Senior Vice President, Manager of the Retail Banking Division.

Mr. Sahakian received his bachelor's degree from California State University, Northridge and is currently enrolled at Pacific Coast Banking School at the University of Washington with an anticipated graduation date of September 2009.

*William Schack, Senior Vice President and Chief Credit Officer of the Bank.* Mr. Schack began his banking career in 1984 as an internal auditor for Crocker National Bank, followed by several years as a senior examiner for the Office of Thrift Supervision. Mr. Schack held various other management positions at First Los Angeles Bank and at Western Federal Savings Bank with responsibilities in special assets and credit administration. Mr. Schack joined First Bank of Beverly Hills in 1997 as senior vice president and chief credit officer and was

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subsequently promoted to chief operating officer and chief financial officer. From 2001 to 2005, Mr. Schack served as managing director and deputy chief credit officer of Imperial Capital Bank. In 2005, Mr. Schack joined First California Bank as Senior Vice President of Credit Administration.

Mr. Schack received his bachelor's degree from the University of California, Los Angeles, and his MBA from the University of Southern California.

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**CORPORATE GOVERNANCE; BOARD COMMITTEES**

**Director Independence**

First California has identified as independent directors the following individuals currently serving on its Board of Directors: directors Aldridge, Benson, Birchfield, Cohen, Gipson, Hubenette, Roberts, Sohn and Tignino. In making this determination, First California applied Rule 4200(a)(15) of the Nasdaq Marketplace Rules. First California's Board of Directors has an audit committee and compensation committee. It did not have a nominating committee until March 2009. Prior to such time, the entire Board effectively functioned as a nominating committee. First California has determined that the independent directors identified above also qualify as independent members of its audit, compensation and governance and nominating committees and fulfill the independence requirements in connection with the nomination of directors in accordance with Rule 4350 of the Nasdaq Marketplace Rules. Mr. Kum is also a member of the Board of Directors of First California but, as the president and chief executive officer of First California, he is not independent.

In making these determinations of independence, First California considered applicable Nasdaq Marketplace Rules and, with respect to members of its audit committee, SEC rules. In addition, with respect to Mr. Benson, First California considered employment relationships with affiliates of First California's largest stockholders.

**Board and Board Committees; Meetings**

The Board of Directors met 15 times during fiscal year 2008. All directors attended at least 75% of all meetings of the Board of Directors and Board Committees on which he or she served in 2008.

The following information is provided regarding certain standing Committees of the Board of Directors during 2008.

**Audit Committee**

The Audit Committee of the Board of Directors was formed on March 12, 2007 upon completion of the mergers. The Audit Committee's current charter was approved by the Board of Directors on January 28, 2009. The Audit Committee charter is available on our website at [www.fcalgroup.com](http://www.fcalgroup.com). The Audit Committee consists of directors Birchfield (Chair), Cohen, Gipson, Roberts and Tignino. The Board of Directors has determined that all of the members of the Audit Committee are independent in accordance with applicable Nasdaq Marketplace Rules and SEC rules. The Board of Directors has also determined that Thomas Tignino is an audit committee financial expert as that term is defined in SEC Regulation S-K.

First California's Audit Committee is responsible for providing assistance to the Board of Directors in fulfilling its legal and fiduciary obligations with respect to matters involving the accounting, auditing, financial reporting, internal control and legal compliance function, as well as those of First California's subsidiaries.

The Audit Committee held nine meetings during 2008.

**Compensation Committee**

The Compensation Committee of the Board of Directors was formed on March 12, 2007 upon completion of the mergers. The Compensation Committee's current charter was approved by the Board of Directors on December 17, 2008. The Compensation Committee charter is available on our website at [www.fcalgroup.com](http://www.fcalgroup.com). The members of the Compensation Committee are: directors Aldridge, Benson (Chair), Hubenette and Roberts, none of whom are executive officers of First California. The Board of Directors has determined that all members of the Compensation Committee are independent under the listing standards of the Nasdaq Stock Market, Inc.

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The Compensation Committee recommends to the Board of Directors all elements of compensation for the executive officers and exercises the Board of Directors' authority with respect to the implementation and administration of the executive compensation programs and policies of First California. The Compensation Committee also administers the restricted stock and stock option plans of First California. The Compensation Committee retained Amalfi Consulting, LLC as its independent compensation consultant for 2008 to advise on all matters related to compensation and general compensation programs and to improve the links between executive and senior officer compensation and performance. Additionally, the Compensation Committee consults with C. G. Kum, First California's President and Chief Executive Officer, on compensation matters.

The Compensation Committee may, in its discretion, delegate all or a portion of its duties and responsibilities to a subcommittee of the Compensation Committee.

The Compensation Committee held five meetings during 2008.

## **Governance and Nominating Committee**

The Governance and Nominating Committee (the GNC) of the Board of Directors was formed in March 2009. Accordingly, the Board of Directors did not have a standing nominating committee during 2008. The members of the GNC are: directors Cohen, Hubenette (Chair), Roberts and Tignino, none of whom are executive officers of First California. The Board of Directors has determined that all members of the GNC are independent under the listing standards of the Nasdaq Stock Market, Inc.

## **Nominations Process**

The GNC considers and develops governance standards for First California and establishes the requirements and qualifications for members of the Board. The GNC, in consultation with the Chief Executive Officer and the Chairman, also recommends candidates for nomination and election to the Board of Directors of First California and to the Board of Directors of First California Bank. The GNC operates under a charter which was approved by the Board of Directors on March 18, 2009, a copy of which was attached to the Proxy Statement, filed with the SEC, dated April 20, 2009.

In identifying and recommending nominees for positions on the Board of Directors, the GNC places primary emphasis on the criteria set forth under Selection of Directors Criteria in our Corporate Governance Guidelines, namely: (1) personal qualities and characteristics, accomplishments and professional reputation; (2) current knowledge and contacts in the communities in which the Company does business and in the Company's industry or other industries relevant to the Company's business; (3) ability and willingness to commit adequate time to Board and committee matters; (4) the fit of the individual's skills and personality with those of other directors and potential directors in building a Board that is effective, collegial and responsive to the needs of the Company; (5) diversity of viewpoints, backgrounds and experience; and (6) the ability and skill set required and other relevant experience.

The GNC does not set specific, minimum qualifications that nominees must meet in order for the GNC to recommend them to the Board of Directors, but rather believes that each nominee should be evaluated based on his or her individual merits, taking into account the needs of First California and the composition of the Board of Directors. Members of the GNC may seek input from other members of the Board in identifying possible candidates, and may, in its discretion, engage one or more search firms to assist in the recruitment of director candidates.

First California's by-laws state that nominations for the election of individuals to the Board of Directors may be made by the Board of Directors or by any holder of our voting stock. Nominations, other than those made by the Board of Directors, must be made in writing. If a stockholder wishes to make such nominations, notice must be received by the Corporate Secretary of First California no less than 90 nor more than 120 days prior to

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the first anniversary date of the Annual Meeting for the preceding year. Any stockholders wishing to make a nomination to the Board of Directors must deliver a statement in writing setting forth the name of the person or persons to be nominated, the number and class of all shares of each class of our stock owned by each proposed nominee, as reported to the nominating stockholders by such nominee(s), the information regarding each such nominee required by paragraphs (a), (e) and (f) of Item 401 of Regulation S-K adopted by the Securities and Exchange Commission, each such nominee's signed consent to serve as a director of the Company if elected, and the nominating stockholders' name and address and the number and class of all shares of each class of First California's stock owned by the nominating stockholder. The Board may require any proposed nominee to furnish such other information as the Board may reasonably require to determine whether the proposed nominee(s) would be considered independent under the various rules and standards applicable to First California. If nominations to the Board of Directors are not made as outlined above, the Chairman of the meeting may disregard the nominations and instruct the inspectors of election to disregard all votes cast for such nominees.

**Director Attendance at Annual Meetings**

The Board's policy regarding director attendance at annual meetings of stockholders is that directors are required to attend. First California does not reimburse directors for expenses related to attendance at annual meetings of stockholders.

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**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

There are no existing or proposed material transactions between the Company and any of our directors, executive officers or beneficial owners of 5% or more of our Common Stock, or the immediate family or associates of any of the foregoing persons exceeding \$120,000 between January 1, 2007 and December 31, 2008, except as indicated below.

Some of our directors and executive officers and their immediate families, as well as the companies with which they are associated, are customers of, and have had banking transactions with, us in the ordinary course of our business, and we expect to have banking transactions with such persons in the future. In our opinion, all loans and commitments to lend since January 1, 2007 (by First California, National Mercantile or FCB) were made in compliance with applicable laws, on substantially the same terms, including interest rates and collateral, as those prevailing for comparable contemporaneous transactions with other persons of similar creditworthiness, and did not involve more than a normal risk of collectability or present other unfavorable features. As of December 31, 2008, deposits of related parties held by the Company amounted to approximately \$1,649,000. As of December 31, 2008, there was one extension of credit to our directors, officers or principal shareholders, or their associates. The balance of this extension of credit was \$2,000 at December 31, 2008.

**Table of Contents****EXECUTIVE COMPENSATION****Summary Compensation Table**

The following table contains summary compensation information for the fiscal years ended December 31, 2008 and 2007 with respect to (1) C. G. Kum, our current President and Chief Executive Officer, and (2) Romolo Santarosa and Cheryl Knight, our two other most highly compensated executive officers for the year ended December 31, 2008. Such executive officers are referred to in this item as the named executive officers.

First California was formed in June 2006 for the purpose of holding the bank subsidiaries of National Mercantile and FCB following completion of the mergers on March 12, 2007. Accordingly, the compensation contained in the table below includes all compensation paid to the named executive officers by the Company, and, with respect to compensation earned during 2007 but prior to completion of the mergers, with National Mercantile or FCB.

**Summary Compensation Table**

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)(3)	Non-equity Incentive Plan Compensation (\$)(4)	Nonqualified Deferred Compensation Earnings (\$)(5)	All Other Compensation (\$)(6)	Total (\$)
C. G. Kum, President and Chief Executive Officer(1)	2008	\$ 410,938			\$ 255,625	\$ 160,000		\$ 93,564	\$ 920,127
	2007	\$ 351,975			\$ 120,748	\$ 168,000		\$ 86,708	\$ 727,431
Romolo Santarosa, Executive Vice President and Chief Financial Officer(1)	2008	\$ 234,703			\$ 81,907	\$ 56,800		\$ 53,982	\$ 427,392
	2007	\$ 212,637			\$ 34,461	\$ 67,000		\$ 46,081	\$ 360,179
Cheryl Knight, Executive Vice President and Chief Risk Officer(2)	2008	\$ 177,331			\$ 23,200	\$ 40,000		\$ 17,458	\$ 257,989
	2007	\$ 140,468			\$ 4,299	\$ 34,000		\$ 8,495	\$ 187,262

- (1) Prior to completion of the mergers, the executive officer also served in such position with FCB.
- (2) Ms. Knight was employed by the Bank effective March 2007.
- (3) The 2008 amounts represent the compensation cost of option awards granted in and prior to 2008, except that these amounts do not include any estimate of forfeitures. The grant date fair value of option awards granted was determined in accordance with Statement of Financial Accounting Standards No. 123R (SFAS 123R) and is recognized as compensation cost over the requisite service period. The terms of each stock option plan are described in **Holdings of Previously Awarded Equity** below. Furthermore, the amount recognized for these awards was calculated based on the lattice option pricing model using the assumptions described in this prospectus. These notes also describe the determination of fair value and compensation cost recognized for these option awards. In particular, an estimate of the number of awards that ultimately will be earned is made at the grant date. Those estimates may be revised each period.
- (4) The 2008 amounts represent short-term annual performance cash bonuses paid under the Company's incentive compensation program. For Mr. Kum, the non-equity incentive plan awards were determined as a percentage of the Company's net profit. For Mr. Santarosa and

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Ms. Knight, the non-equity incentive plan awards were determined as a percentage of base salary. See Description of Non-equity Incentive Plan below.

- (5) This column represents the interest earnings and distributions for the fiscal year on compensation that is deferred on a basis that is not tax-qualified.

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- (6) The 2008 amounts reflect for each named executive officer (1) matching contributions made by the Company pursuant to its 401(k) Plan, (2) the economic benefit reported as income to each named executive officer attributable to the split-dollar life insurance policies owned by the Company with respect to such named executive officer, (3) premiums associated with group term life insurance and health insurance policies, and (4) the incremental cost of perquisites including the value of the monthly amounts paid to the named executive officers for the use of personally owned automobiles and cellular phones and the amounts paid by the Company on behalf of each named executive officer with respect to club memberships and overnight lodging. This column also includes the total change from December 31, 2007 through December 31, 2008, in the accrued liability balance established with respect to the benefit obligation associated with the post-retirement salary continuation agreement of each named executive officer and accrued for in accordance with Accounting Principles Board Opinion No. 12. For 2008, these amounts were: C. G. Kum, \$50,936; and Romolo Santarosa, \$23,198. See Employment Agreements and Other Factors Affecting 2008 Compensation below for more information on the salary continuation agreements.

**Employment Agreements and Other Factors Affecting 2008 Compensation**

***Modification of Compensation Arrangements as a Result of CPP***

In connection with the Company's participation in CPP, the Company's named executive officers have entered into written agreements with the Company pursuant to which they have agreed to certain modifications to compensation, bonus, incentive and other benefit plans, arrangements and agreements, including severance and employment agreements ( "Benefit Plans"). The modification to the Benefit Plans are intended to comply with the requirements for executive compensation set forth in the EESA pursuant to which CPP was authorized. These agreements modify Benefit Plans in the following ways: (1) the payment of golden parachutes to the named executive officers is prohibited; (2) any bonus and incentive compensation paid to a named executive officer is subject to recovery or "clawback" by the Company if the payments were based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria; and (3) compensation incentives for named executive officers to take unnecessary and excessive risks that threaten the value of the Company are prohibited.

In addition, EESA, as subsequently amended by ARRA in February 2009, imposes additional limitations on executive compensation which will apply for so long as any obligation arising from the Company's participation in CPP remains outstanding. The following are some key features of the new executive compensation restrictions in ARRA and the Treasury Regulations issued thereunder:

**ARRA prohibits bonus and similar payments to top employees.** ARRA prohibits the payment of any bonus, retention award, or incentive compensation to the Company's most highly-compensated employee for so long as any obligation arising from the Company's participation in CPP remains outstanding. The prohibition does not apply to certain long term restricted stock grants or bonuses payable pursuant to employment agreements in effect prior to February 11, 2009. The most highly-compensated employee is identified in accordance with the SEC proxy disclosure rules.

**Limited amount of restricted stock excluded from bonus prohibition.** Long-term restricted stock is excluded from ARRA's bonus prohibition, but only to the extent the value of the stock does not exceed one-third of the total amount of annual compensation of the employee receiving the stock, the stock does not fully vest until after all CPP-related obligations have been satisfied, and any other conditions which the U.S. Treasury may specify have been met.

**Shareholder say-on-pay vote required.** ARRA requires every company receiving CPP assistance to permit a non-binding shareholder vote to approve the compensation of executives as disclosed in the Company's Proxy Statement. ARRA directs the SEC to adopt regulations within 1 year to implement say-on-pay. The Company has included a say-on-pay proposal as Proposal 2 in its Proxy Statement, filed with the SEC on April 30, 2009.

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**Stricter restrictions on golden parachute payments.** EESA generally limited golden parachute payments to senior executives to three times the executives' base compensation. ARRA prohibits any payment to a senior executive officer or any of the next five most highly-compensated employees upon termination of employment for any reason or due to a change in control for as long as any CPP-related obligations remain outstanding.

**Broader bonus clawback requirements.** EESA required CPP-participating companies to recover any bonus or other incentive payment paid to a senior executive officer on the basis of materially inaccurate financial or other performance criteria. ARRA extends this recovery requirement to the next 20 most highly-compensated employees in addition to the senior executive officers.

**Prohibition on compensation plans that encourage earnings manipulation.** ARRA prohibits CPP participants from implementing any compensation plan that would encourage manipulation of the reported earnings to enhance the compensation of any of its employees.

**Board compensation committee required.** ARRA requires CPP participants to establish a board compensation committee and requires the committee to meet at least semiannually to discuss and evaluate employee compensation plans in light of an assessment of any risk to us posed by such plans.

**New reporting and certification requirements.** ARRA requires the CEO and CFO of any publicly-traded CPP-participating company to provide a written certification of compliance with the executive compensation restrictions in ARRA in the Company's annual filings with the SEC (i.e. in its Annual Report on Form 10-K or Proxy Statement).

**Policy on luxury expenditures.** ARRA requires each CPP-participating company to implement a company-wide policy regarding excessive or luxury expenditures, including excessive expenditures on entertainment or events, office and facility renovations, aviation or other transportation services.

**Treasury review of prior payments.** ARRA directs the U.S. Treasury to review bonuses, retention awards and other compensation paid to the senior executive officers and the next 20 most highly-compensated employees of each company receiving CPP assistance before ARRA was enacted, and to seek to negotiate with the CPP recipient and affected employees for reimbursement if it finds any such payments were inconsistent with CPP or otherwise in conflict with the public interest.

In addition to the above requirements, ARRA adopts and continues two requirements from EESA essentially unchanged:

**\$500,000 annual deduction limit.** Like EESA, ARRA prohibits CPP participants from deducting annual compensation paid to senior executive officers in excess of \$500,000.

**No excessive risks.** Like EESA, ARRA requires the U.S. Treasury to implement limits on compensation that exclude incentives for senior executive officers of a CPP-participating company to take unnecessary and excessive risks that threaten the value of the company for as long as any CPP-related obligation remains outstanding. ARRA requires semi-annual compensation committee review and certification of the risk characteristics of a company's incentive compensation arrangements.

The Company has already implemented the requirements of EESA and ARRA.

### *Employment Arrangements with C. G. Kum*

The following is a description of all written employment arrangements between the Company and C. G. Kum. All such written agreements entered into prior to June 2006 were assumed by First California in connection with the mergers.

**Salary Continuation Agreement with C. G. Kum.** In March 2003, First California Bank entered into a salary continuation agreement with Mr. Kum, which was subsequently amended in December 2008. Upon

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retirement at or after age 65 for reasons other than death, the agreement provides for a maximum annual benefit of \$160,471 paid in equal monthly installments, which will be paid over the lesser of 17 years or such shorter period of time based upon the number of years that Mr. Kum is employed by the Bank prior to normal retirement. If Mr. Kum leaves the Bank's employ by virtue of early voluntary retirement (prior to attaining age 65) or is terminated for cause (as defined in the agreement), he will not be eligible for a benefit under the agreement. In the event Mr. Kum leaves the Company's employ by virtue of death (either prior or subsequent to retirement), involuntary termination (without cause), disability or, under certain circumstances, a change in control, he will receive partial benefits under the agreement. The amount to be paid under the agreement to Mr. Kum in the event of early involuntary termination is determined based on the year in which termination occurs, and is to be paid in one lump sum by the Company within 30 days following the termination of employment. Upon Mr. Kum's termination of employment due to disability, Mr. Kum will receive a specified amount determined based on the year in which the disability occurs, which is to be paid as an annual benefit for a period of 17 years. Upon a change in control, followed within 12 months by Mr. Kum's termination of employment for reasons other than death, disability or retirement, Mr. Kum will receive a lump sum amount of \$1,488,723 within 30 days following the termination of employment.

The salary continuation agreement is an unfunded arrangement, which means that Mr. Kum has no rights under the agreement beyond those of a general creditor of the Company, and there are no specific assets set aside by the Company in connection with the establishment of the agreement. The salary continuation agreement is not an employment contract. While receiving benefits under the agreement, Mr. Kum may not serve as an employee, officer or director of, or serve as a consultant or advisor to, any financial institution that has its headquarters or any branch office within the County of Ventura or the County of Santa Barbara, California.

**Split Dollar Agreement with C. G. Kum.** First California Bank also entered into split-dollar life insurance agreements with Mr. Kum in March 2003, which was subsequently amended in December 2008. In connection with that agreement, First California Bank acquired life insurance policies with respect to Mr. Kum. Pursuant to the terms of that agreement, the Company owns the insurance policy, is entitled to the cash value of the policy and is responsible for paying the associated premiums. Upon Mr. Kum's death while employed by the Company, or after termination of employment by reason of retirement at age 65 or subsequent to a change-in-control, a beneficiary designated by Mr. Kum is entitled to receive \$1.5 million of the total proceeds, with the Company entitled to the balance. The Bank paid an aggregate premium in 2002 amounting to \$1.4 million for this policy.

**Employment Agreement with C. G. Kum.** Concurrently with execution of the merger agreement on June 15, 2006, First California and Mr. Kum entered into an employment agreement that provides that Mr. Kum would serve First California as Chief Executive Officer commencing with the closing of the mergers. Pursuant to the employment agreement, Mr. Kum receives an annual base salary of \$375,000 (subject to review and increase commencing in 2008) and a bonus based on First California's net earnings, with the total bonus not to exceed 150% of the base salary. Additionally, Mr. Kum was granted an option to purchase 100,000 shares of First California Common Stock on Mr. Kum's start date with an exercise price equal to the fair market value on the date of grant. Either First California or Mr. Kum may terminate his employment at any time with or without cause (as defined in the employment agreement). If First California terminates his employment without cause, Mr. Kum will be entitled to 18 months of health insurance coverage and severance, as follows: (1) if the termination is on or before March 1, 2009, the severance will be twice his then current salary; (2) if the termination is after March 1, 2009, the severance will be 50% of his then current salary if at least 70% of the Board members vote for such termination; if less than 70% of the Board members vote for such termination, the severance will be 150% of his then current salary plus 150% of the average of his bonuses for the two preceding years. If within 18 months following a change in control, Mr. Kum's employment is terminated without cause or he terminates his employment for good reason (as defined in the employment agreement), Mr. Kum will receive the greater of two times his then current salary or 2.99 times his average salary and bonus over the prior five years, provided that in no event can the payment exceed the golden parachute limitation under Section 280G of the Internal Revenue Code.

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### ***Employment Arrangements for Romolo Santarosa***

The following is a description of all written employment arrangements between the Company and Romolo Santarosa. All such written agreements entered into prior to June 2006 were assumed by First California in connection with the mergers.

**Salary Continuation Agreement with Romolo Santarosa.** In May 2006, First California Bank entered into a salary continuation agreement with Mr. Santarosa, which was subsequently amended in December 2008. Upon retirement at or after age 65 for reasons other than death, the agreement provides for an annual benefit of \$85,000, which will be paid over the lesser of 15 years or such shorter period of time based upon the number of years that Mr. Santarosa is employed by the Bank prior to normal retirement. If Mr. Santarosa leaves the Company's employ by virtue of early voluntary retirement (prior to attaining age 65) or is terminated for cause (as defined in the agreement), he will not be eligible for a benefit under the agreement. In the event Mr. Santarosa leaves the Company's employ by virtue of death (either prior or subsequent to retirement), involuntary termination (without cause), disability or, under certain circumstances, a change in control, he will receive partial benefits under the agreement. The amount to be paid under the agreement to Mr. Santarosa in the event of early involuntary termination is determined based on the year in which termination occurs, and is to be paid in one lump sum by the Company within 30 days following the termination of employment. Upon Mr. Santarosa's termination of employment due to disability, Mr. Santarosa will receive a specified amount determined based on the year in which the disability occurs, which is to be paid as an annual benefit for a period of 15 years. Upon a change in control, followed within 12 months by Mr. Santarosa's termination of employment for reasons other than death, disability or retirement, Mr. Santarosa will receive a lump sum amount of \$792,660 within 30 days following the termination of employment.

The salary continuation agreement is an unfunded arrangement, which means that Mr. Santarosa has no rights under the agreement beyond those of a general creditor of the Company, and there are no specified assets set aside by the Company in connection with the establishment of the agreement. The salary continuation agreement is not an employment contract. While receiving benefits under the agreement, Mr. Santarosa may not serve as an employee, officer or director of, or serve as a consultant or advisor to, any financial institution that has its headquarters or any branch office within the County of Ventura or the County of Santa Barbara, California.

**Split Dollar Agreement with Romolo Santarosa.** First California Bank also entered into split-dollar life insurance agreements with Mr. Santarosa in July 2003 and May 2006, which was subsequently amended in December 2008. In connection with these agreements, First California Bank acquired life insurance policies with respect to Mr. Santarosa. Pursuant to the terms of those agreements, the Company owns the insurance policies, is entitled to the cash value of the policies and is responsible for paying the associated premiums. Pursuant to the terms of one of the split-dollar life insurance agreements, upon Mr. Santarosa's death while employed by the Company, or after termination of employment by reason of retirement at age 65 or subsequent to a change-in-control, a beneficiary designated by Mr. Santarosa is entitled to receive \$850,000 of the total proceeds, with the Company entitled to the balance. Under the other split-dollar life insurance agreement, a beneficiary designated by Mr. Santarosa will receive \$400,000 upon Mr. Santarosa's death while employed by the Company, with a reduced death benefit upon termination of Mr. Santarosa's employment with the Company by any reason other than disability. The Bank paid aggregate premiums in 2002 and 2006 amounting to \$673,000 for these policies.

### ***Employment Arrangements for Cheryl Knight***

Ms. Knight has no similar employment agreements.

**Table of Contents****Holdings of Previously Awarded Equity*****Outstanding Equity Awards at Fiscal Year End***

Prior to the mergers, National Mercantile had three outstanding equity incentive plans: the National Mercantile Bancorp 2005 Stock Incentive Plan, the Amended 1996 Stock Incentive Plan and the 1994 Stock Option Plan. Prior to the mergers, FCB had the FCB Bancorp 2005 Stock Option Plan. Equity awards held immediately prior to the completion of the mergers by Mr. Kum and Mr. Santarosa were issued under the FCB Bancorp 2005 Stock Option Plan. The plans are described below. All outstanding equity incentive plans were assumed by First California in connection with the mergers. At the effective time of the mergers, each outstanding option to purchase shares of National Mercantile, vested or unvested, was converted into an option to acquire an equal number of shares of First California Common Stock at an exercise price per share equal to the exercise price per share of such National Mercantile option, and each outstanding option to purchase shares of FCB Bancorp, vested or unvested, was converted into an option to acquire a number of shares of First California Common Stock equal to the product of (1) the number of shares of FCB Bancorp common stock subject to the FCB Bancorp option plan immediately prior to the effective time of the mergers and (2) the exchange ratio of 1.7904 at an exercise price per share adjusted by the exchange ratio.

At December 31, 2008, the only outstanding awards under these plans consisted of stock options. At December 31, 2008, the number of shares of Common Stock to be issued upon exercise of outstanding options granted pursuant to these plans was 501,797 shares, and the number of shares of Common Stock remaining available for future issuance under these plans was 249,471 shares.

The following table sets forth the outstanding equity awards consisting solely of stock options to purchase shares of First California held by each of the named executive officers as of December 31, 2008. None of the named executive officers have been granted restricted stock at any time during or prior to 2008.

***2008 Outstanding Equity Awards at Fiscal Year-End***

<b>Name</b>	<b>Number of Securities Underlying Unexercised Options (#) Exercisable</b>	<b>Number of Securities Underlying Unexercised Options (#) Unexercisable</b>	<b>Option Exercise Price (\$)</b>	<b>Expiration Date</b>
C. G. Kum	0	22,500(7)	\$ 6.75	6/18/2016
	0	100,000(1)	\$ 9.00	3/12/2015
	0	17,904(2)	\$ 11.73	3/1/2014
	0	16,114(3)	\$ 11.32	4/23/2012
	17,904	0	\$ 6.29	6/19/2011
	5,968	11,936(5)	\$ 11.73	4/14/2011
Romolo Santarosa	0	10,000(7)	\$ 6.75	6/18/2016
	4,000	16,000(6)	\$ 9.00	6/6/2015
	0	8,952(2)	\$ 11.73	3/1/2014
	0	8,057(3)	\$ 11.32	4/23/2012
	1,791	0	\$ 6.29	6/19/2011

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	2,984	5,968(5)	\$ 11.73	4/14/2011
Cheryl Knight	0	7,500(7)	\$ 6.75	6/18/2016
	2,000	8,000(4)	\$ 9.00	9/19/2015

- (1) Stock option vests in three equal annual installments beginning on March 12, 2010. This stock option was repriced on June 18, 2008 from an exercise price of \$13.10 per share to \$9.00 per share; all other terms of the stock option remained the same. The closing price of the Common Stock on June 18, 2008 was \$7.90 per share.

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- (2) Stock option vests in three equal annual installments beginning on March 1, 2009.
  
- (3) Stock option vested on April 23, 2009.
  
- (4) Stock option vests in five equal annual installments beginning on September 19, 2008. This stock option was repriced on May 28, 2008 from an exercise price of \$12.27 per share to \$9.00 per share; all other terms of the stock option remained the same. The closing price of the Common Stock on May 28, 2008 was \$7.90 per share.
  
- (5) Stock option vests in three equal annual installments beginning on April 14, 2008.
  
- (6) Stock option vests in five equal annual installments beginning on June 6, 2008. This stock option was repriced on June 18, 2008 from an exercise price of \$12.27 per share to \$9.00 per share; all other terms of the stock option remained the same. The closing price of the Common Stock on June 18, 2008 was \$7.90 per share.
  
- (7) Stock option vests in five equal annual installments beginning on June 18, 2009.

**Description of Stock Incentive Plans**

The following is a description of First California's stock incentive plans for which stock options and restricted stock granted under such plans were outstanding at December 31, 2008. All awards that have been issued during 2008 have been issued pursuant to the First California 2007 Omnibus Equity Incentive Plan.

***First California 2007 Omnibus Equity Incentive Plan***

In June 2007, the Board of Directors and the Company's stockholders approved the First California 2007 Omnibus Equity Incentive Plan, or First California Plan. The First California Plan authorizes the issuance of awards for up to 1,000,000 shares of the Company's Common Stock in the form of incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards. The First California Plan is administered and interpreted by the Compensation Committee. The Compensation Committee selects the officers and other employees to receive awards, determines the types of awards and number of shares to be awarded to them and sets the terms, conditions and provisions of the awards consistent with the terms of the First California Plan. The Compensation Committee may establish rules for the administration of the First California Plan. All actions, interpretations and determinations made by the Compensation Committee shall be final and conclusive and binding.

At December 31, 2008, outstanding awards under the First California Plan consisted of both stock options and restricted stock. Restricted stock granted to non-employee directors vests over three years in three equal annual installments. Restricted stock granted to employees generally vests over five years in five equal annual installments. Stock options granted to Key Persons (as defined in the First California Plan) may be either incentive stock options, or ISOs, under the provisions of Section 422 of the Internal Revenue Code, or the Code, or options that are not subject to the provisions of Section 422 of the Code, or Nonqualified Options. Options entitle the recipient to purchase shares of Common Stock at the exercise price specified in the award agreement. The Compensation Committee at its discretion determines the number of option shares, the term of the option, the exercise price, vesting schedule and any other terms and conditions. The exercise price per share of Common Stock covered by an option will not be less than the fair market value of a share of Common Stock on the date of grant. The Compensation Committee will determine the periods during which the options will be exercisable. However, no ISO will be exercisable more than 10 years after the date of grant. The Compensation Committee may impose restrictions, as it deems advisable on the shares acquired pursuant to the exercise of an option, including but not limited to requiring the recipient to hold the shares acquired pursuant to the exercise for a specified period of time.

The Board or the Compensation Committee may amend or terminate the First California Plan, provided that no amendment that requires stockholder approval under Delaware law, the listing requirements of The Nasdaq

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Stock Market, Inc., or in order for the First California Plan to continue to comply with Rule 16b-3 of the Securities Exchange Act of 1934, as amended, or Section 162(m) of the Code shall be effective unless it is approved by the requisite vote of stockholders. No amendment shall adversely affect any of the rights of any holder of any award without the holder's consent. Absent such early termination by the Board or the Compensation Committee, the First California Plan will terminate in 2017.

At December 31, 2008, the number of shares of Common Stock to be issued upon exercise of outstanding options granted pursuant to the First California Plan was 140,000 shares, and the number of shares of Common Stock remaining available for future issuance under the First California Plan was 831,099 shares. At December 31, 2008, the number of shares of Common Stock issued as restricted stock awards granted under these plans and not yet vested was 26,812.

### ***First California Financial Group, Inc. 2005 NMB Stock Incentive Plan (formerly known as the National Mercantile Bancorp 2005 Stock Incentive Plan)***

The National Mercantile Bancorp 2005 Stock Incentive Plan, or the NMB Plan, was assumed by First California in connection with the mergers and renamed the First California Financial Group, Inc. 2005 NMB Stock Incentive Plan. Each outstanding option to purchase shares of National Mercantile common stock was converted into an equal number of options to acquire a number of shares of First California Common Stock.

At December 31, 2008, the number of shares of Common Stock issuable upon exercise of outstanding options granted pursuant to the NMB Plan was 38,664 shares, and the number of shares of Common Stock remaining available for future issuance under the NMB Plan was 120,088 shares. The NMB Plan will terminate on March 24, 2015, except as to awards then outstanding, which awards will remain in effect until they have been exercised, the restrictions have lapsed or the awards have expired or been forfeited. The Company does not intend to issue any additional awards pursuant to this plan.

### ***First California Financial Group, Inc. Amended 1996 NMB Stock Incentive Plan (formerly known as the National Mercantile Bancorp Amended 1996 Stock Incentive Plan)***

The National Mercantile Bancorp Amended 1996 Stock Incentive Plan, or the 1996 Plan, as amended on June 6, 2002 and which terminated in April 2005, was assumed by First California in connection with the mergers and renamed the First California Financial Group, Inc. Amended 1996 NMB Stock Incentive Plan. The 1996 Plan provided for the grant of either incentive stock options or non-qualified stock options covering up to an aggregate of 835,638 shares of National Mercantile common stock. Each outstanding option to purchase shares of National Mercantile common stock was converted into an equal number of options to acquire a number of shares of First California Common Stock.

At December 31, 2008, the number of shares of Common Stock issuable upon exercise of outstanding options granted pursuant to the 1996 Plan was 125,877 shares, and the number of shares of Common Stock remaining available for future issuance under the 1996 Plan was 0 shares.

### ***First California Financial Group, Inc. FCB 2005 Stock Option Plan (formerly known as the FCB Bancorp 2005 Stock Option Plan)***

The FCB Bancorp 2005 Stock Option Plan, or the FCB Bancorp Plan, was assumed by First California in connection with the mergers and renamed the First California Financial Group, Inc. FCB 2005 Stock Option Plan. At the effective time of the mergers, each outstanding option to purchase shares of FCB common stock, vested or unvested, was converted into an option to acquire a number of shares of First California Common Stock equal to the product of (1) the number of shares of FCB common stock subject to the FCB Bancorp Plan immediately prior to the effective time and (2) the exchange ratio of 1.7904 at an exercise price per share adjusted by the exchange ratio.

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At December 31, 2008, the number of shares of Common Stock issuable upon exercise of outstanding options granted pursuant to the FCB Bancorp Plan was 337,256 shares, and the number of shares of Common Stock remaining available for future issuance under the FCB Bancorp Plan was 96,196 shares. The FCB Bancorp Plan will terminate on May 19, 2015. The Company does not intend to issue any additional awards pursuant to this plan.

**Securities Authorized for Issuance Under Equity Compensation Plans**

The following table sets forth as of December 31, 2008 information regarding outstanding options and the number of shares available for future option grants under all of our equity compensation plans. All equity plans of FCB Bancorp, in addition to those of National Mercantile Bancorp and all outstanding option awards were assumed by First California in connection with the Mergers.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by shareholders (1)	641,797	\$ 8.89	907,287
Equity compensation plans not approved by shareholders	N/A	N/A	N/A
<b>Total</b>	<b>641,797</b>	<b>\$ 8.89</b>	<b>907,287</b>

(1) Includes the First California 2007 Omnibus Equity Incentive Plan, FCFG FCB 2005 Stock Option Plan, FCFG 2005 NMB Stock Incentive Plan, FCFG Amended 1996 NMB Stock Incentive Plan, FCFG 1994 NMB Stock Option Plan.

**Non-Qualified Deferred Compensation****National Mercantile Deferred Compensation Plan**

Prior to the mergers, National Mercantile's Deferred Compensation Plan sought to provide specified benefits to a select group of management or highly compensated employees who contributed materially to the growth, development and future business of the company. The plan allowed eligible participants to select a certain amount of their annual compensation to be set aside in an interest-bearing account at an annual rate equal to prime plus 150 basis points with a maximum rate of 9% and a minimum rate of 5%. Upon the participant's termination of employment and subject to a six month delay in distributions under Internal Revenue Code Section 409A, National Mercantile would pay the participant the sum of all amounts and interest accrued in monthly installments for up to five years or in one lump sum payment, to be selected by the participant. If, however, the participant was terminated for cause, all interest accrued would be eliminated and the participant would receive only the amount of compensation deferred. We suspended participation and contributions to this plan in 2007.

**Description of Non-equity Incentive Plan**

The Company awards annual cash incentive bonuses to certain of its employees, including the named executive officers, under the Company's incentive compensation program. In paying annual cash bonuses, the Company seeks to align the compensation of the named executive officers and other employees with performance. Accordingly, the payment of the annual cash bonus depends on the achievement of the Company's net profit target, as approved by the Board of Directors for a given year. The Board of Directors sets the net profit

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target after taking into account, among other things, expected growth in loans, deposits and total assets. Under the incentive compensation program, an employee in good standing is eligible to receive a bonus calculated as a percentage of salary and as a percentage of net profit for the chief executive officer. A threshold cash bonus amount occurs when the Company achieves 85% of the net profit goal with an upper limit of 115%. The threshold cash bonus amount is deducted from the net profit goal before measuring the percentage achievement. The Board of Directors, under the incentive compensation program, has the discretion to award a lower cash bonus than may have been received in respect of any particular year. The payment of annual cash bonuses generally occurs in March of each year in respect of achievements of the prior fiscal year.

**Compensation of Directors**

First California's non-employee directors are paid for attendance at Board meetings at the rate of \$18,000 per year. In addition, the Chairman of the Board receives an additional \$16,000 per year. The Company's non-employee directors are paid for attendance at Audit Committee, Loan Committee, Balance Sheet Committee and Compensation Committee meetings at the rate of \$7,000 per year for each respective committee. The Chairman of the Audit Committee receives an additional \$7,000 per year and the Chairs of the other Board committees receive an additional \$5,000 per year. The designated financial expert on the Audit Committee receives an additional \$2,000 per year.

In July 2006, First California Bank entered into split-dollar life insurance agreements with Richard Aldridge and John Birchfield in connection with which First California Bank purchased life insurance policies for such directors. Pursuant to the terms of those agreements, First California Bank owns the life insurance policies, is entitled to the cash value of the policies and is responsible for paying the associated premiums. Under the plan, a beneficiary designated by the director is entitled to receive \$250,000 of the total proceeds upon the director's death, with First California Bank entitled to the balance. In 2008, no additional discretionary compensation was awarded to any non-employee director.

The following table sets forth information concerning the compensation paid by First California during 2008 to each of its non-employee directors.

Name(1)	Fees Earned or Paid in	Stock	Option	All Other	Total
	Cash (\$)	Awards(2) (\$)	Awards(3) (\$)	Compensation(4) (\$)	
Richard Aldridge	\$ 37,000	\$ 7,640	\$ 12,208	\$ 1,778	\$ 58,626
Donald E. Benson	\$ 37,000	\$ 7,640	\$ 0	\$ 0	\$ 44,640
John W. Birchfield	\$ 46,000	\$ 7,640	\$ 12,208	\$ 1,300	\$ 67,148
Joseph N. Cohen	\$ 37,000	\$ 7,640	\$ 0	\$ 0	\$ 44,640
Robert E. Gipson	\$ 41,000	\$ 7,640	\$ 0	\$ 0	\$ 48,640
W. Douglas Hile	\$ 39,000	\$ 7,640	\$ 0	\$ 0	\$ 46,640
Antoinette T. Hubenette, M.D.	\$ 32,000	\$ 7,640	\$ 0	\$ 0	\$ 39,640
Syble R. Roberts	\$ 32,000	\$ 7,640	\$ 12,208	\$ 0	\$ 51,848
Thomas Tignino	\$ 34,000	\$ 7,640	\$ 0	\$ 0	\$ 41,640

- (1) C. G. Kum did not receive any additional compensation for his service as a director during 2008.
- (2) The non-employee directors received restricted share awards in 2008. The amounts included in this column represent the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2008, in accordance with SFAS 123R. The number of restricted shares outstanding as of December 31, 2008 held by each director is 1,765. Restricted stock granted to non-employee directors vests in three equal annual installments.
- (3) No stock options were awarded to non-employee directors in 2008. The amounts included in this column represent the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2008, in accordance with SFAS 123R, of stock options granted in and prior to 2006 under National Mercantile Bancorp's Amended 1996 and the 2005 Stock Incentive Plans. National Mercantile's

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- directors named above do not have any options outstanding under the 1994 Stock Option Plan. The 1996 and 2005 plans are described in Holdings of Previously Awarded Equity. Furthermore, the amount recognized for these awards was calculated based on the lattice option pricing model using the assumptions described in Note 14 of the Company's audited financial statements for the year ended on December 31, 2008 included elsewhere in this prospectus. The number of options outstanding as of December 31, 2008 held by each director is: 17,009 (Aldridge), 0 (Benson), 17,009 (Birchfield), 3,750 (Cohen), 3,750 (Gipson), 2,500 (Hile), 3,750 (Hubenette), and 17,009 (Roberts).
- (4) The amounts in this column reflect the economic value attributed to directors Aldridge and Birchfield of the life insurance benefit to such directors in 2008 with respect to life insurance policies owned by the Company.

**Table of Contents****SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The following table provides information as of December 4, 2009 regarding our Common Stock and our Series A Convertible Perpetual Preferred Stock, or Series A Preferred Stock, owned by: (1) each person we know to beneficially own more than 5% of the outstanding Common Stock or outstanding Series A Preferred Stock; (2) each of our directors; (3) each of our executive officers named in the Summary Compensation Table included in this Proxy Statement; and (4) all of our executive officers and directors as a group. Except as may be indicated in the footnotes to the table and subject to applicable community property laws, to our knowledge each person identified in the table has sole voting and investment power with respect to the shares shown as beneficially owned. The Series A Preferred Stock is included in the table below; however, the Series A Preferred Stock is not entitled to vote at the Annual Meeting.

The Company also has issued and outstanding 25,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series B, or Series B Preferred Stock. All of the Series B Preferred Stock was issued to the U.S. Treasury on December 19, 2008 in connection with the Company's participation in the Treasury's CPP. The Treasury is the beneficial owner of 100% of the issued and outstanding shares of Series B Preferred Stock, and therefore, no further disclosure with respect to the Series B Preferred Stock is contained in the table below. The Series B Preferred Stock is not entitled to vote at the Annual Meeting.

The address of each person listed below is c/o First California Financial Group, Inc., 3027 Townsgate Road, Suite 300, Westlake Village, California 91361.

Name of Beneficial Owners	Amount of Beneficial Ownership of Common Stock(1)	Approximate Percentage of Outstanding Shares	Amount of Beneficial Ownership of Series A Preferred Stock(17)	Approximate Percentage of Outstanding Series A Preferred Stock(17)
<b>Directors and Executive Officers:</b>				
C. G. Kum(2)	155,101	1.33%	0	*
Romolo Santarosa(3)	38,070	*	0	*
Cheryl Knight(4)	9,645	*	0	*
Richard D. Aldridge(5)(6)	1,425,154	12.26%	0	*
Donald E. Benson(7)	85,248	*	0	*
John W. Birchfield(6)(8)	1,475,490	12.69%	0	*
Joseph N. Cohen(9)	7,310	*	0	*
Robert E. Gipson(9)	47,780	*	0	*
Antoinette T. Hubenette, M.D.(9)	12,497	*	0	*
Syble R. Roberts(10)	427,746	3.68%	0	*
Thomas Tignino(11)	12,867	*	0	*
Sung Won Sohn, Ph.D.		*	0	*
William A. Schack(12)	12,645	*	0	*
Donald W. Macaulay(13)	1,000	*	0	*
All directors and executive officers as a group (14 persons)(14)	2,841,898	24.44%	0	*
<b>Greater than 5% stockholders not listed above:</b>				
James O. Pohlada(15)	936,942	8.06%	334	33.4%
Robert C. Pohlada(15)	936,941	8.06%	333	33.3%
William M. Pohlada(15)	936,942	8.06%	333	33.3%
Carl R. Pohlada(15)(16)	387,498	3.33%	0	*
Total Pohlada Family	3,198,323	27.51%	1,000	100%

\* Represents less than 1%.

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- (1) Shares of Common Stock subject to options currently exercisable, or exercisable within 60 days of March 31, 2009 and shares of restricted Common Stock are deemed outstanding for computing the ownership percentage of the person holding such options or warrants, but are not deemed outstanding for computing the ownership percentage of any other person. Unless otherwise noted in a footnote to this table, the number of shares reflected in the table includes shares held by or with such person's spouse (except where legally separated) and minor children; shares held by any other relative of such person who has the same home; shares held by a family trust as to which such person is a trustee with sole voting and investment power (or shares power with a spouse); shares held as custodian for minor children; or shares held in an Individual Retirement Account or pension plan as to which such person has pass-through voting rights and investment power.
- (2) Includes 89,755 shares that may be acquired within 60 days of December 4, 2009 upon exercise of stock options and 13,805 shares of restricted Common Stock which vest in five equal annual installments beginning on February 25, 2010.
- (3) Includes 28,800 shares that may be acquired within 60 days of December 4, 2009 upon exercise of stock options and 5,485 shares of restricted Common Stock which vest in five equal annual installments beginning on February 25, 2010.
- (4) Includes 5,500 shares that may be acquired within 60 days of December 4, 2009 upon exercise of stock options and 4,145 shares of restricted Common Stock which vest in five equal annual installments beginning on February 25, 2010.
- (5) This figure includes 52,469 shares held by the Brian J. Aldridge 1991 Trust and 70,180 shares held by the Tenisha M. Aldridge 1991 Trust, of which Lynda J. Aldridge, the spouse of Richard Aldridge, is the sole trustee. Includes 14,682 shares that may be acquired within 60 days of December 4, 2009 upon exercise of stock options, 1,765 shares of restricted Common Stock which vest in three equal annual installments beginning on March 19, 2009, and 3,045 shares which vest in three equal installments beginning on February 25, 2010.
- (6) This figure includes 868,655 shares held in trusts for which Richard D. Aldridge and John W. Birchfield are co-trustees, each having full voting rights over the entire block of shares. The 868,655 shares are held as follows: 679,531 shares are held in the James O. Birchfield 1995 Trust, 47,281 shares are held in the James O. Birchfield 1995 Trust FBO Shane O. Birchfield, 47,281 shares are held in the James O. Birchfield 1995 Trust FBO Garrett W. Birchfield, 47,281 shares are held in the James O. Birchfield 1995 Trust FBO Tenisha M. Fitzgerald, and 47,281 shares are held in the James O. Birchfield 1995 Trust FBO Brian J. Aldridge.
- (7) This figure includes 1,765 shares of restricted Common Stock which vest in three equal annual installments beginning on March 19, 2009, and 3,045 shares which vest in three equal installments beginning on February 25, 2010. 64,187 of these shares have been pledged as security in a Merrill Lynch Margin Account.
- (8) This figure includes 66,234 shares held by the Shane O. Birchfield Trust and 43,893 shares held by the Garrett W. Birchfield Trust, of which John W. Birchfield is the sole trustee. This figure also includes 14,682 shares that may be acquired within 60 days of December 4, 2009 upon exercise of stock options, 1,765 shares of restricted Common Stock which vest in three equal annual installments beginning on March 19, 2009, and 3,045 shares which vest in three equal installments beginning on February 25, 2010.
- (9) Includes 2,500 shares that may be acquired within 60 days of December 4, 2009 upon exercise of stock options, and 1,765 shares of restricted Common Stock which vest in three equal annual installments beginning on March 19, 2009, and 3,045 shares which vest in three equal installments beginning on February 25, 2010.
- (10) Includes 14,682 shares that may be acquired within 60 days of December 4, 2009 upon exercise of stock options, and 1,765 shares of restricted Common Stock which vest in three equal annual installments beginning on March 19, 2009, and 3,045 shares which vest in three equal installments beginning on February 25, 2010.



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- (11) Includes 1,765 shares of restricted Common Stock which vest in three equal annual installments beginning on March 19, 2009, and 3,045 shares which vest in three equal installments beginning on February 25, 2010.
  
- (12) Includes 1,000 shares that may be acquired within 60 days of December 4, 2009 upon exercise of stock options and 3,165 shares of restricted Common Stock which vest in five equal annual installments beginning on February 15, 2010 and 8,480 shares which vest in five equal installments beginning on February 25, 2010.
  
- (13) Includes 1,000 shares that may be acquired within 60 days of December 4, 2009 upon exercise of stock options.
  
- (14) The 868,655 shares beneficially owned by each of Richard D. Aldridge and John W. Birchfield, in their capacities as co-trustees of the James O. Birchfield trusts discussed in footnote (6) above, are included only once for purposes of this figure.
  
- (15) The business address is 60 South Sixth Street, Suite 3800, Minneapolis, Minnesota 55402.
  
- (16) Owned in two separate revocable trusts.
  
- (17) Each share of Series A Preferred Stock is convertible into a number of shares of Common Stock equal to the liquidation preference of \$1,000 and any accumulated dividends thereon, divided by 5.63.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires the Company's directors and executive officers, and persons who own more than 10% of a registered class of the Company's equity securities, to file reports of ownership of, and transactions in, the Company's equity securities with the SEC. Such directors, executive officers and 10% stockholders are also required to furnish the Company with copies of all Section 16(a) reports that they file. Based solely on a review of the copies of such reports received by the Company, the Company believes that all Section 16(a) filing requirements applicable to its directors, executive officers and 10% stockholders were complied with and filed in a timely manner during 2008, except as follows: Edmond Sahakian's Form 3 was not timely filed during 2008.

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### **DESCRIPTION OF CAPITAL STOCK**

The following is a brief description of the terms of our capital stock. This summary does not purport to be complete in all respects. This description is subject to and qualified in its entirety by reference to the Delaware General Corporation Law, federal law, our amended and restated certificate of incorporation, and our amended and restated by-laws, copies of which have been filed with the SEC and are also available upon request from us.

#### **Common Stock**

##### ***General***

Our amended and restated certificate of incorporation provides the authority to issue 25,000,000 shares of common stock, par value \$0.01 per share. At December 4, 2009, there were 11,627,008 shares of common stock issued and outstanding, held of record by approximately 479 stockholders. In addition, at December 4, 2009, 1,299,948 shares of our common stock were issuable under our stock compensation plans, and 297,965 shares of our common stock were issuable upon conversion of our Series A Preferred Stock. Our common stock is listed on the NASDAQ Global Market under the symbol FCAL. Outstanding shares of our common stock are validly issued, fully paid and non-assessable.

Each share of our common stock has the same relative rights and is identical in all respects to each other share of our common stock. The common stock has no preemptive, conversion or redemption rights or sinking fund provisions.

##### ***Voting Rights***

Each holder of common stock is entitled to one vote for each share held of record on all matters submitted to a vote of the stockholders except with respect to votes in elections of directors for which they are authorized to use cumulative voting. Cumulative voting for directors entitles the stockholder to cast a number of votes equivalent to their total shares of common stock owned multiplied by the number of directors to be elected. The stockholder may cast all of such votes for a single director or may distribute them among the number to be voted for, or for any two or more of them as such holder may see fit.

##### ***Liquidation Rights***

In the event of First California's liquidation, dissolution or winding up, holders of common stock are entitled to share ratably in all First California's assets remaining after payment of liabilities and the liquidation preference of any then outstanding preferred stock.

##### ***Dividends***

Holders of our common stock are entitled to receive ratably such dividends as may be declared by our Board of Directors out of funds legally available therefor. The ability of our Board of Directors to declare and pay dividends on our common stock is subject to the terms of applicable banking regulations and the terms of the Series A Preferred Stock and Series B Preferred Stock described herein. In addition, we cannot declare or pay a dividend on our common stock without the consent of the U.S. Treasury until the third anniversary of the date of the CPP investment, or December 19, 2011, unless prior to such third anniversary the Series B Preferred Stock is redeemed in whole or the U.S. Treasury has transferred all of the Series B Preferred Stock to third parties. We also may not pay dividends on our capital stock if we are in default or have elected to defer payments of interest under our junior subordinated debentures. The declaration and payment of future dividends to holders of our common stock will also depend upon our earnings and financial condition, the capital requirements of our subsidiaries, regulatory conditions and other factors as our Board of Directors may deem relevant.

##### ***Transfer Agent and Registrar***

The transfer agent and registrar for our common stock is Registrar and Transfer Company.

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### ***Restrictions on Ownership***

The Bank Holding Company Act requires any bank holding company, as defined in the Bank Holding Company Act, to obtain the approval of the Federal Reserve Board before acquiring 5% or more of our common stock. Any person, other than a bank holding company, is required to obtain the approval of the Federal Reserve Board before acquiring 10% or more of our common stock under the Change in Bank Control Act. Any holder of 25% or more of our common stock, or a holder of 5% or more if such holder otherwise exercises a controlling influence over us, is subject to regulation as a bank holding company under the Bank Holding Company Act.

### **Preferred Stock**

Our amended and restated certificate of incorporation provides the authority to issue 2,500,000 shares of preferred stock, par value \$0.01 per share. Of the 2,500,000 shares of preferred stock, we have issued 1,000 shares of Series A Convertible Perpetual Preferred Stock, or Series A Preferred Stock, and 25,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series B, or Series B Preferred Stock.

Our amended and restated certificate of incorporation, subject to certain limitations, authorizes our Board of Directors, from time to time by resolution and without further stockholder action, to provide for the issuance of shares of preferred stock, in one or more series, and to fix the designation, powers, preferences and other rights of the shares and to fix the qualifications, limitations and restrictions thereof. As a result of its discretion with respect to the creation and issuance of preferred stock without stockholder approval, our Board of Directors could adversely affect the voting power of the holders of common stock and, by issuing shares of preferred stock with certain voting, conversion and/or redemption rights, could discourage any attempt to obtain control of us.

### **Series A Preferred Stock**

In connection with the mergers, each of the 1,000 outstanding shares of National Mercantile Series B Convertible Perpetual Preferred Stock was converted into the right to receive one share of our Series A Preferred Stock.

### ***Voting Rights***

The holders of Series A Preferred Stock do not have the right to vote on any matter submitted to the stockholders except:

authorizing, creating or issuing any additional shares of Series A Preferred Stock or shares of any class or series of stock having any preference or priority superior to or on parity with the Series A Preferred Stock with respect to the payment of distribution of assets upon the dissolution or liquidation, voluntary or involuntary, of First California;

declaring or paying any dividend on its common stock or on any other class or series of capital stock of First California ranking junior to the Series A Preferred Stock;

repurchase, redeem or otherwise acquire for any consideration any share of its common stock or shares of any other class or series of capital stock of First California ranking junior to the Series A Preferred Stock; or

amending, altering or repealing any provisions of the amended and restated certificate of incorporation of First California, amending, altering or repealing any provisions of the certificate of designation of rights, preferences and privileges of Series A Preferred Stock, or adopting, amending, altering, or repealing any certificate of determination of rights and preferences with respect to any class or series of capital stock, in each case, so as to adversely affect the rights, preferences and privileges relating to Series A Preferred Stock or the holders thereof or waive any of the rights granted to the holders of the Series A Preferred Stock.

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### ***Liquidation Rights***

In the event of a voluntary or involuntary liquidation or dissolution, holders of Series A Preferred Stock are entitled to receive a liquidation preference per share equal to \$1,000 plus an amount equal to 8.5% per annum of the \$1,000, which is deemed to have commenced accrual on December 10, 2001. This amount is payable out of the assets of First California before any distribution to holders of common stock.

### ***Dividends***

Except with respect to their liquidation preference, the holders of Series A Preferred Stock are not entitled to receive any dividends.

### ***Redemption***

Redemption of the Series A Preferred Stock is at the Company's option subject to certain restrictions imposed by our Series B Preferred Stock. The per share redemption amount is equal to \$1,000 plus an amount equal to 8.5% per annum of the \$1,000, accrued from December 10, 2001 to the date of redemption. In the event that we elect to redeem any shares of Series A Preferred Stock, we must redeem all of the outstanding shares of Series A Preferred Stock.

### ***Conversion***

Each holder of Series A Preferred Stock has the right, exercisable at the option of the holder, to convert all or some of such holder's shares of Series A Preferred Stock into common stock. The number of shares of common stock to be issued upon conversion of each share of Series A Preferred Stock is determined by dividing the sum of each share's liquidation preference, including unpaid dividends, by the conversion price then in effect. The conversion price as of December 4, 2009 is \$5.63 per share. As of December 4, 2009, the number of shares of our common stock that would be issued upon conversion of the Series A Preferred Stock is 297,965.

### **Series B Preferred Stock**

On December 19, 2008, pursuant to the Capital Purchase Program, we issued to the U.S. Treasury 25,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series B, with a liquidation preference of \$1,000 per share par value \$0.01 per share, for a total purchase price of \$25,000,000. The holders of the Series B Preferred Stock have preferential dividend and liquidation rights over holders of our common stock. The Series B Preferred Stock pays cumulative dividends at a rate of 5% per year for the first five years and thereafter at a rate of 9% per year. The Series B Preferred Stock is non-voting, except in limited circumstances. Prior to December 5, 2011, unless we have redeemed all of the Series B Preferred Stock or the U.S. Treasury has transferred all of the Series B Preferred Stock to third parties, the consent of the U.S. Treasury will be required for us to, among other things, repurchase or otherwise acquire any of our shares of common stock or trust preferred securities, subject to certain limited exceptions. In addition, so long as any of our Series B Preferred Stock is outstanding, we may not repurchase or otherwise acquire any of our outstanding common stock unless we are current in our dividend payments on our outstanding Series B Preferred Stock. We may not redeem the Series B Preferred Stock without requisite regulatory approval.

### ***Voting Rights***

Except as indicated below or otherwise required by law, the holders of Series B Preferred Stock will not have any voting rights.

*Election of Two Directors upon Non-Payment of Dividends.* If the dividends on the Series B Preferred Stock have not been paid for an aggregate of six quarterly dividend periods or more (whether or not consecutive), the holders of Series B Preferred Stock, together with the holders of any outstanding parity stock with like voting

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rights, referred to as voting parity stock, voting as a single class, will be entitled to elect two members of our Board of Directors, referred to as the preferred stock directors, at the next annual meeting (or at a special meeting called for the purpose of electing the preferred stock directors prior to the next annual meeting) and at each subsequent annual meeting until all accrued and unpaid dividends for all past dividend periods have been paid in full. Our amended and restated by-laws provide that in the event such voting right is triggered, the authorized number of directors on our Board of Directors will be increased by two members. The election of any preferred stock director is subject to the qualification that the election would not cause us to violate the corporate governance requirement of the NASDAQ Global Market (or any other exchange on which our securities may be listed) that listed companies must have a majority of independent directors.

Upon the termination of the right of the holders of Series B Preferred Stock and voting parity stock to vote for preferred stock directors, as described above, the preferred stock directors will immediately cease to be qualified as directors, their term of office will terminate immediately and the number of our authorized directors will be reduced by the number of preferred stock directors that the holders of Series B Preferred Stock and voting parity stock had been entitled to elect. The holders of a majority of shares of Series B Preferred Stock and voting parity stock, voting as a class, may remove any preferred stock director, with or without cause, and the holders of a majority of the shares Series B Preferred Stock and voting parity stock, voting as a class, may fill any vacancy created by the removal of a preferred stock director. If the office of a preferred stock director becomes vacant for any other reason, the remaining preferred stock director may choose a successor to fill such vacancy for the remainder of the unexpired term.

*Other Voting Rights.* So long as any shares of Series B Preferred Stock are outstanding, in addition to any other vote or written consent of stockholders required by law or by our amended and restated certificate of incorporation, the vote or written consent of the holders of at least 66<sup>2</sup>/<sub>3</sub>% of the shares of Series B Preferred Stock at the time outstanding, voting separately as a single class, given in person or by proxy, either in writing without a meeting or by vote at any meeting called for the purpose, will be necessary for effecting or validating:

any amendment or alteration of the certificate of determination for the Series B Preferred Stock or our amended and restated certificate of incorporation to authorize or create or increase the authorized amount of, or any issuance of, any shares of, or any securities convertible into or exchangeable or exercisable for shares of, any class or series of capital stock ranking senior to the Series B Preferred Stock with respect to payment of dividends and/or distribution of assets on our liquidation, dissolution or winding up;

any amendment, alteration or repeal of any provision of the certificate of determination for the Series B Preferred Stock so as to adversely affect the rights, preferences, privileges or voting powers of the Series B Preferred Stock; or

any consummation of a binding share exchange or reclassification involving the Series B Preferred Stock or of a merger or consolidation by us with another entity, unless the shares of Series B Preferred Stock remain outstanding following any such transaction or, if we are not the surviving entity, such shares are converted into or exchanged for preference securities and such remaining outstanding shares of Series B Preferred Stock or preference securities have rights, preferences, privileges and voting powers that are not materially less favorable than the rights, preferences, privileges or voting powers of the Series B Preferred Stock, taken as a whole.

To the extent of the voting rights of the Series B Preferred Stock, each holder of Series B Preferred Stock will be entitled to one vote for each share of Series B Preferred Stock held.

The foregoing voting provisions will not apply if, at or prior to the time when the vote or consent would otherwise be required, all outstanding shares of Series B Preferred Stock have been redeemed or called for redemption upon proper notice and sufficient funds have been set aside by us for the benefit of the holders of Series B Preferred Stock to effect the redemption.

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### ***Liquidation Rights***

If we voluntarily or involuntarily liquidate, dissolve or wind up our affairs, the holders of Series B Preferred Stock will be entitled to receive an amount per share, referred to as the total liquidation amount, equal to the fixed liquidation preference of \$1,000 per share, plus any accrued and unpaid dividends, whether or not declared, to the date of payment. Holders of Series B Preferred Stock will be entitled to receive the total liquidation amount out of our assets, if any, that are available for distribution to stockholders, after payment or provision for payment of our debts and other liabilities but before any distribution of assets is made to holders of our common stock or any other shares ranking, as to that distribution, junior to the Series B Preferred Stock.

If our assets are not sufficient to pay the total liquidation amount in full to all holders of Series B Preferred Stock and all holders of other shares of stock ranking equally with the Series B Preferred Stock, the amounts paid to the holders of Series B Preferred Stock and other shares of parity stock will be paid pro rata in accordance with the respective total liquidation amount of those holders. If the total liquidation amount per share of Series B Preferred Stock has been paid in full to all holders of Series B Preferred Stock and other shares of parity stock, the holders of our common stock or any other shares ranking, as to such distribution, junior to the Series B Preferred Stock will be entitled to receive all remaining assets of the Company according to their respective rights and preferences. For purposes of the liquidation rights, neither the sale, conveyance, exchange or transfer of all or substantially all of our property and assets, nor the consolidation or merger by us with or into any other corporation or by another corporation with or into us, will constitute a liquidation, dissolution or winding up of our affairs.

### ***Dividends Payable On Shares of Series B Preferred Stock***

The holders of Series B Preferred Stock are entitled to receive, if and when declared by our Board of Directors, out of assets legally available for payment, cumulative cash dividends at a rate per annum of 5% per share on a liquidation preference of \$1,000 per share of Series B Preferred Stock with respect to each dividend period during the five year period following December 19, 2008 and are entitled to receive cumulative cash dividends at a rate per annum of 9% per share on (1) the liquidation preference of \$1,000 per share of Series B Preferred Stock and (2) the amount of accrued and unpaid dividends for any prior dividend period on such shares, if any, thereafter.

Dividends are payable quarterly in arrears on February 15, May 15, August 15 and November 15 of each year. Dividends payable during any dividend period are computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends payable with respect to the Series B Preferred Stock are payable to the holders of record of shares of Series B Preferred Stock on the date that is 15 calendar days immediately preceding the applicable dividend payment date or such other record date as the Board of Directors determines, so long as such record date is not more than 60 nor less than 10 days prior to the applicable dividend payment date.

Dividends on the Series B Preferred Stock will be cumulative. If for any reason our Board of Directors does not declare a dividend on the Series B Preferred Stock for a particular dividend period, or if the Board of Directors declares less than a full dividend, we will remain obligated to pay the unpaid portion of the dividend for that period and the unpaid dividend will compound on each subsequent dividend date (meaning that dividends for future dividend periods will accrue on any unpaid dividend amounts for prior dividend periods).

We are required to provide written notice to the holders of shares of Series B Preferred Stock prior to the applicable dividend payment date if we determine not to pay any dividend or a full dividend with respect to the Series B Preferred Stock.

We are subject to various regulatory policies and requirements relating to the payment of dividends, including requirements to maintain adequate capital above regulatory minimums. The Federal Reserve Board is authorized to determine, under certain circumstances relating to the financial condition of a bank holding company, that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof.

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### ***Priority of Dividends***

With respect to the payment of dividends and the amounts to be paid upon liquidation, the Series B Preferred Stock will rank (1) senior to our common stock and all other equity securities designated as ranking junior to the Series B Preferred Stock; and (2) at least equally with all other equity securities designated as ranking on a parity with the Series B Preferred Stock, referred to as parity stock, including shares of our Series A Preferred Stock then outstanding, with respect to the payment of dividends and distribution of assets upon any liquidation, dissolution or winding up of the Company.

So long as any share of Series B Preferred Stock remains outstanding, unless all accrued and unpaid dividends for all prior dividend periods have been contemporaneously declared and paid in full, no dividend or distribution may be declared or paid on shares of common stock or any other shares of junior stock, other than a dividend payable solely in shares of common stock. In addition, we may not repurchase, redeem or otherwise acquire for consideration any shares of common stock or other junior stock unless all accrued and unpaid dividends for all past dividend periods on the Series B Preferred Stock are fully paid, other than: (1) redemptions, purchases or other acquisitions of shares of common stock or other junior stock in connection with the administration of our employee benefit plans in the ordinary course of business pursuant to a publicly announced repurchase plan; (2) any dividends or distributions of rights or junior stock in connection with a stockholders' rights plan or any redemption or repurchase of rights pursuant to any stockholders' rights plan; (3) the acquisition by the Company of record ownership in junior stock or parity stock for the beneficial ownership of any other persons (other than the Company or any of its subsidiaries), including as trustees or custodians; and (4) the exchange or conversion of junior stock for or into other junior stock or of parity stock for or into other parity stock or junior stock, but only to the extent that such acquisition is required pursuant to binding contractual agreements entered into before December 19, 2008 or any subsequent agreement for the accelerated exercise, settlement or exchange thereof for common stock.

On any dividend payment date for which full dividends on the Series B Preferred Stock and any other parity stock are not paid, or declared and funds set aside therefor, all dividends paid or declared with respect to the Series B Preferred Stock and any other parity stock will be declared ratably among the holders of any such shares who have the right to receive dividends, in proportion to the respective amounts of the undeclared and unpaid dividends relating to the dividend period.

Subject to the foregoing, such dividends (payable in cash, securities or other property) as may be determined by the Board of Directors may be declared and paid on our common stock and any other stock ranking equally with or junior to the Series B Preferred Stock, from time to time out of any funds legally available for such payment, and the holders of Series B Preferred Stock will not be entitled to participate in any such dividends.

### ***Redemption***

The Series B Preferred Stock may not be redeemed prior to February 15, 2012, except with the proceeds from one or more qualified equity offerings which results in aggregate gross proceeds to the Company of not less than \$6,250,000, which equals 25% of the aggregate liquidation amount of the Series B Preferred Stock on the date of issuance. A qualified equity offering means the sale and issuance by the Company to persons other than the Company or any of its subsidiaries after December 19, 2008 of Tier 1 qualifying perpetual preferred stock or common stock for cash. Qualified equity offerings do not include sales and issuances made pursuant to agreements or arrangements entered into, or pursuant to financing plans that were publicly announced, on or prior to October 13, 2008. In such a case, we may redeem the Series B Preferred Stock, subject to the approval of the appropriate federal banking agency, in whole or in part, at any time and from time to time, upon notice as described below, up to a maximum amount equal to the aggregate net cash proceeds received by us from such qualified equity offerings.

On or after February 15, 2012, the Series B Preferred Stock may be redeemed, in whole or in part, at any time and from time to time, at the Company's option. All such redemptions will be at 100% of its issue price,

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plus any accrued and unpaid dividends, and will be subject to the approval of the appropriate federal banking agency. Following any such redemption by the Company, we will have the right to repurchase any of our other equity securities held by the U.S. Treasury at fair market value. In connection with the adoption of the ARRA, subject to the approval of the U.S. Treasury and the appropriate federal banking agency, we may repurchase the Series B Preferred Stock at any time regardless of whether or not we have replaced such funds from any other source.

The Series B Preferred Stock is not subject to any mandatory redemption, sinking fund or similar provisions. Holders of shares of Series B Preferred Stock have no right to require the redemption or repurchase of the Series B Preferred Stock.

If fewer than all of the outstanding shares of Series B Preferred Stock are to be redeemed, the shares to be redeemed will be selected either pro rata or in such other manner as the Board of Directors may determine to be fair and equitable.

We will mail notice of any redemption of Series B Preferred Stock by first class mail, postage prepaid, addressed to the holders of record of the shares of Series B Preferred Stock to be redeemed at their respective last addresses appearing on our books. This mailing must be at least 30 days and not more than 60 days before the date fixed for redemption. Any notice mailed or otherwise given as described in this paragraph will be conclusively presumed to have been duly given, whether or not the holder receives such notice, but failure duly to give such notice by mail, or any defect in such notice or in the mailing or provision of the notice, to any holder of shares of Series B Preferred Stock designated for redemption will not affect the redemption of any other Series B Preferred Stock. Each notice of redemption will set forth the applicable redemption date, the redemption price, the place where shares of Series B Preferred Stock are to be redeemed, and the number of shares of Series B Preferred Stock to be redeemed (and, if less than all the shares held by such holder are to be redeemed, the number of such shares to be redeemed from the holder).

Shares of Series B Preferred Stock that are redeemed, repurchased or otherwise acquired by the Company will revert to authorized but unissued shares of our preferred stock.

## **Treasury Warrant**

In connection with the U.S. Treasury's purchase of our Series B Preferred Stock, we issued to the U.S. Treasury, or the warrant holder, a warrant exercisable for 599,042 shares of our common stock (subject to adjustment as described below) at an initial exercise price of \$6.26 per share, referred to as the Warrant. The Warrant may be exercised at any time on or before 5:00 p.m., New York City time, on December 19, 2018 by surrender of the Warrant and a completed notice of exercise attached as an annex to the Warrant together with payment of the exercise price for the shares of common stock for which the Warrant is being exercised. The exercise price may be paid either by our withholding of such number of shares of common stock issuable upon exercise of the Warrant equal to the value of the aggregate exercise price of the Warrant determined by reference to the market price of our common stock on the trading day on which the Warrant is exercised or, if agreed to by us and the warrant holder, by the payment of cash equal to the aggregate exercise price.

If we complete one or more qualified equity offerings on or prior to December 31, 2009 that result in our receipt of aggregate gross proceeds of at least \$25,000,000, which is equal to 100% of the aggregate liquidation preference of the Series B Preferred Stock, the number of shares of common stock underlying the Warrant then held by the warrant holder will be reduced by an amount equal to one-half of the number of shares initially covered by the Warrant.

## ***Rights as a Stockholder***

The warrant holder will have no rights or privileges of the holders of our common stock, including any voting rights, until (and then only to the extent) the Warrant has been exercised.

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### ***Transferability***

The warrant holder may not transfer a portion of the Warrant with respect to more than 299,521 shares of common stock until the earlier of (1) the date on which the Company has received aggregate gross proceeds of not less than \$25,000,000 from one or more qualified equity offerings and (2) December 31, 2009. The Warrant, and all rights under the Warrant, are otherwise transferable.

### ***Adjustments to the Warrant***

***Adjustments in Connection with Stock Splits, Subdivisions, Reclassifications and Combinations.*** The number of shares for which the Warrant may be exercised, and the exercise price of the Warrant, will be proportionately adjusted in the event we pay dividends or make distributions of our common stock, subdivide, combine or reclassify outstanding shares of our common stock.

***Anti-dilution Adjustment.*** Until the earlier of December 19, 2011 and the date the initial warrant holder no longer holds the Warrant (and other than in certain permitted transactions described below), if we issue any shares of common stock (or securities convertible or exercisable into common stock) for less than 90% of the market price of the common stock on the last trading day prior to pricing such shares, then the number of shares of common stock into which the Warrant is exercisable and the exercise price will be adjusted. Permitted transactions include issuances: (1) as consideration for or to fund the acquisition of businesses and/or related assets; (2) in connection with employee benefit plans and compensation related arrangements in the ordinary course and consistent with past practice approved by our Board of Directors; (3) in connection with public or broadly marketed offerings and sales of common stock or convertible securities for cash conducted by us or our affiliates pursuant to registration under the Securities Act or Rule 144A thereunder on a basis consistent with capital-raising transactions by comparable financial institutions; and (4) in connection with the exercise of preemptive rights on terms existing as of December 19, 2008.

***Other Distributions.*** If we declare any dividends or distributions other than our historical, ordinary cash dividends, the exercise price of the Warrant will be adjusted to reflect such a distribution.

***Certain Repurchases.*** If we effect a pro rata repurchase of common stock, then both the number of shares issuable upon exercise of the Warrant and the exercise price will be adjusted.

***Business Combinations.*** In the event of a merger, consolidation or similar transaction involving the Company and requiring stockholder approval, the warrant holder's right to receive shares of our common stock upon exercise of the Warrant will convert into the right to exercise the Warrant for the consideration that would have been payable to the warrant holder with respect to the shares of common stock for which the Warrant may be exercised, as if the Warrant had been exercised prior to such merger, consolidation or similar transaction.

### **Anti-Takeover Effects of Certain Provisions of Our Charter Documents and Law**

The following is a summary of certain provisions of law and our amended and restated certificate of incorporation and amended and restated by-laws that may have the effect of discouraging, delaying or preventing a change of control, change in management or an unsolicited acquisition proposal that a stockholder might consider favorable, including proposals that might result in the payment of a premium over the market price for the shares held by our stockholders. This summary does not purport to be complete and is qualified in its entirety by reference to the laws and documents referenced.

With respect to our charter documents, while such provisions might be deemed to have some anti-takeover effect, the principal effect of these provisions is to protect our stockholders generally and to provide our Board of Directors and stockholders a reasonable opportunity to evaluate and respond to such unsolicited acquisition proposals.

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### ***Charter Documents***

Our authorized shares of common stock or preferred stock may be used by our Board of Directors consistent with its fiduciary duty to deter future attempts to gain control of us. Our Board of Directors also has sole authority to determine the terms of any one or more series of preferred stock, including voting rights, conversion rates and liquidation preferences. As a result of the ability to fix voting rights for a series of preferred stock, our Board of Directors has the power, to the extent consistent with its fiduciary duty, to issue a series of preferred stock to persons friendly to management in order to attempt to block a post-tender offer merger or other transaction by which a third party seeks control, and thereby assist management to retain its position. Our amended and restated by-laws impose certain notice and information requirements in connection with the nomination by stockholders of candidates for election to our Board of Directors or the proposal by stockholders of business to be acted upon at any annual or special meeting of stockholders.

### ***California and Federal Banking Law and Delaware Law***

The following discussion is a summary of certain provisions of California and federal law and regulations and the DGCL which may be deemed to have anti-takeover effects. The description of these provisions is necessarily general and reference should be made to the actual law and regulations.

Federal law prohibits a person or group of persons acting in concert from acquiring control of a bank holding company unless the Federal Reserve Board has been given 60 days prior written notice of such proposed acquisition and within that time period the Federal Reserve has not issued a notice disapproving the proposed acquisition or extending for up to another 30 days the period during which such a disapproval may be issued. An acquisition may be made prior to the expiration of the disapproval period if the Federal Reserve issues written notice of its intent not to disapprove the action. Under a rebuttable presumption established by the Federal Reserve, the acquisition of 10% or more of a class of voting stock of a bank or bank holding company with a class of securities registered under Section 12 of the Exchange Act would, under the circumstances set forth in the presumption, constitute the acquisition of control. In addition, any company would be required to obtain the approval of the Federal Reserve under the Bank Holding Company Act before acquiring 25% (5% in the case of an acquiror that is, or is deemed to be, a bank holding company) or more of any class of voting stock, or such lesser number of shares as may constitute control.

Under the California Financial Code, no person shall, directly or indirectly, acquire control of a California state bank or its holding company unless the Department of Financial Institutions has approved such acquisition of control. A person would be deemed to have acquired control of First California Bank if such person, directly or indirectly, has the power (1) to vote 25% or more of the voting power of First California Bank, or (2) to direct or cause the direction of the management and policies of First California Bank. For purposes of this law, a person who directly or indirectly owns or controls 10% or more of our outstanding common stock would be presumed to control First California Bank.

We are a Delaware corporation that is subject to Section 203 of the DGCL. Section 203 provides that, subject to certain exceptions specified in the law, a Delaware corporation shall not engage in certain business combinations with any interested stockholder for a three-year period following the time that the stockholder became an interested stockholder unless:

prior to such time, our Board of Directors approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;

upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the corporation's voting stock outstanding at the time the transaction commenced, excluding certain shares; or

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at or subsequent to that time, the business combination is approved by the Board of Directors of the corporation and authorized at an annual or special meeting, and not by written consent, by the affirmative vote of holders of at least 66