First California Financial Group, Inc.
Form 10-Q
May 15, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2008

OR

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

For the transition period from to

Commission file number 000-52498

FIRST CALIFORNIA FINANCIAL GROUP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**38-3737811**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification Number)**
1880 Century Park East, Suite 800 Los Angeles, California	**90067**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant s telephone number, including area code: (310) 277-2265

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

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 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 ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

11,482,123 shares of Common Stock, $0.01 par value, as of April 30, 2008

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FIRST CALIFORNIA FINANCIAL GROUP, INC.

QUARTERLY REPORT ON

FORM 10-Q

For the Quarterly Period Ended March 31, 2008

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

FIRST CALIFORNIA FINANCIAL GROUP, INC. AND SUBSIDIARIES

Condensed consolidated balance sheets (unaudited)

(in thousands)	**March 31, 2008**	**December 31, 2007**
Cash and due from banks	$ 19,697	$ 17,413
Federal funds sold	275	255
Securities	227,032	231,095
Loans held for sale	23,927	11,454
Loans, net	746,711	738,351
Premises and equipment, net	18,573	18,626
Goodwill	50,099	50,216
Other intangibles, net	9,345	9,642
Cash surrender value of life insurance	11,034	10,931
Accrued interest receivable and other assets	27,814	20,859
Total assets	$ 1,134,507	$ 1,108,842
Non-interest checking	$ 188,900	$ 197,262
Interest checking	57,173	53,312
Money market and savings	207,918	229,236
Certificates of deposit, under $100,000	77,724	76,513
Certificates of deposit, $100,000 and over	198,104	204,757
Total deposits	729,819	761,080
Borrowings	226,644	168,901
Junior subordinated debentures	26,662	26,648
Accrued interest payable and other liabilities	13,126	15,346
Total liabilities	996,251	971,975
Preferred stock, $0.01 par value authorized 2,500,000 shares: Series A convertible preferred; 1,000 shares issued and outstanding as of March 31, 2008 and December 31, 2007	1,000	1,000
Common stock, $0.01 par value; authorized 25,000,000 shares; 11,780,874 shares issued as of March 31, 2008; 11,762,499 shares issued as of December 31, 2007	118	118
Additional paid-in capital	132,595	132,543
Treasury stock, at cost 295,654 shares at March 31, 2008 and 261,979 at December 31, 2007	(2,647)	(2,374)
Retained earnings	7,382	5,350
Accumulated other comprehensive income (loss)	(192)	230
Total shareholders equity	138,256	136,867
Total liabilities and shareholders equity	$ 1,134,507	$ 1,108,842

See accompanying notes.

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FIRST CALIFORNIA FINANCIAL GROUP, INC. AND SUBSIDIARIES

Condensed consolidated statements of operations (unaudited)

	Three Months Ended March 31,	
	2008	2007
(in thousands, except per share data)		
Interest and fees on loans	$ 13,823	$ 10,158
Interest on securities	3,070	1,693
Interest on federal funds sold and interest bearing deposits	12	446
Total interest income	16,905	12,297
Interest on deposits	4,249	3,334
Interest on borrowings	1,954	1,458
Interest on junior subordinated debentures	439	359
Total interest expense	6,642	5,151
Net interest income before provision for loan losses	10,263	7,146
Provision for loan losses	450	
Net interest income after provision for loan losses	9,813	7,146
Service charges on deposit accounts	517	367
Loan sales and commissions	54	226
Unrealized gain on derivatives	1,225	
Other income	362	119
Total noninterest income	2,158	712
Salaries and employee benefits	4,567	3,383
Premises and equipment	1,128	628
Loss on early termination of debt		1,564
Integration and conversion expenses		3,476
Other expenses	2,680	1,299
Total noninterest expense	8,375	10,350
Income (loss) before provision for income taxes	3,596	(2,492)
Provision (benefit) for income taxes	1,407	(1,397)
Net income (loss)	$ 2,189	$ (1,095)
Earnings (loss) per share:		
Basic	$ 0.19	$ (0.16)
Diluted	$ 0.19	$ (0.16)

See accompanying notes.

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FIRST CALIFORNIA FINANCIAL GROUP, INC. AND SUBSIDIARIES

Condensed consolidated statements of cash flows (unaudited)

(in thousands)	Three Months Ended March 31, 2008	2007
Net income (loss)	$ 2,189	$ (1,095)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation and amortization of premises and equipment	363	207
Provision for credit losses	450	
Unrealized gain on derivatives	(1,225)	
Realized net gains on sale of securities and loans	(26)	(226)
Stock-based compensation costs	67	83
Net accretion of discounts on securities available-for-sale	(170)	(136)
Amortization of core deposit and trade name intangibles	298	62
Amortization of premium on loans purchased		15
Loss on deferred debt issue costs upon redemption		404
Origination of loans held for sale	(12,743)	
Proceeds from sale and payments received from loans held for sale	296	
Increase in cash surrender value of life insurance	(260)	
Increase in accrued interest receivable and other assets	(4,345)	(3,901)
(Decrease) increase in accrued interest payable and other liabilities	(2,687)	1,356
Net cash used in operating activities	(17,793)	(3,231)
Purchases of securities available-for-sale	(14,025)	(2,643)
Proceeds from repayment and maturities of securities available-for-sale	19,483	7,967
Proceeds from repayment and maturities of securities held-to-maturity		142
Purchases of Federal Home Loan Bank stock	(2,503)	(600)
Net change in federal funds sold	(20)	
Loan originations and principal collections, net	(8,810)	(15,629)
Purchases of premises and equipment	(310)	(113)
Proceeds from sale of repossessed personal property	36	
Net cash and cash equivalents received in acquisition		6,760
Net cash used in investing activities	(6,149)	(4,116)
Net decrease in demand deposits, money market and savings accounts	(25,819)	9,603
Net decrease in time certificates of deposit	(5,442)	(14,248)
Net increase (decrease) in borrowings	57,743	23,756
Issuance of junior subordinated debentures		16,495
Redemption of junior subordinated debentures		(15,464)
Purchases of treasury stock	(289)	
Proceeds from issuance of common stock under compensation plan	23	
Proceeds from exercise of stock options	10	200
Net cash provided by financing activities	26,226	20,342
Change in cash and due from banks	2,284	12,995
Cash and due from banks, beginning of period	17,413	13,438
Cash and due from banks, end of period	$ 19,697	$ 26,433

Supplemental cash flow information:

Cash paid for interest	$	7,625	$	5,602
Cash paid for income taxes	$	3,465	$	100
Supplemental disclosure of noncash investing activities				
Issuance of common stock for purchase accounting merger			$	82,982

See accompanying notes.

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NOTE 1 BASIS OF PRESENTATION

Organization and nature of operations First California Financial Group, Inc. (referred to in this report as we , our , First California or the Company) 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 effecting the merger and capital stock exchange with National Mercantile and acquisition of FCB Bancorp, a California corporation, or FCB.

On June 15, 2006, First California, FCB and National Mercantile entered into an Agreement and Plan of Merger, or the Merger Agreement, providing for the merger of National Mercantile with and into the newly formed holding company, First California, and the conversion of each share of National Mercantile common stock into the right to receive one share of common stock, $0.01 par value per share, or First California Common Stock, of First California and the conversion of each share of FCB common stock into the right to receive 1.7904 shares of First California Common Stock. In addition, the Merger Agreement provided for the conversion of each share of National Mercantile series B convertible perpetual preferred stock into the right to receive one share of series A convertible perpetual preferred stock, $0.01 par value per share, or First California Preferred Stock, of First California. The merger and acquisition were approved by both National Mercantile and FCB shareholders and regulators.

On March 12, 2007, First California completed the merger and capital stock exchange with National Mercantile and acquisition of FCB pursuant to the Merger Agreement as described above. Concurrently with the merger and acquisition, the number of common shares authorized of First California was increased to 25,000,000 and First California authorized the issuance of 2,500,000 shares of preferred stock of which 1,000 shares were designated as series A convertible perpetual preferred stock. In addition, each share of National Mercantile series B convertible perpetual preferred stock was exchanged for one share of series A convertible perpetual preferred stock of First California. As a result of these transactions, First California issued an aggregate of approximately 11,518,733 shares of First California Common Stock to former National Mercantile and FCB shareholders and 1,000 shares of First California Preferred Stock to former shareholders of National Mercantile series B convertible preferred stock. First California paid cash of $1,800 in lieu of fractional shares of First California Common Stock issued in connection with the acquisition of FCB.

Upon completion of the merger of National Mercantile into its wholly-owned subsidiary First California and the acquisition of FCB by First California, the separate corporate existence of National Mercantile and FCB ceased, and First California succeeded, and assumed all the rights and obligations of, National Mercantile and FCB. First California assumed all 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. As a result of the acquisition of FCB, First California acquired all the rights and obligations of FCB, whose principal assets included the capital stock of First California Bank, or the Bank.

On June 19, 2007, First California completed the integration of Mercantile, South Bay and First California Bank, as contemplated by the Merger Agreement. The Bank purchased substantially all the assets and assumed substantially all the liabilities of Mercantile and South Bay and sold the bank charters of Mercantile and South Bay to United Central Bank and The Independent Bankers Bank, respectively. As a result of these transactions, the three former bank subsidiaries of National Mercantile and FCB now operate under the First California Bank brand.

The Company serves the comprehensive banking needs of businesses and consumers in Los Angeles, Orange and Ventura counties through traditional business and consumer banking to construction finance, SBA lending, entertainment finance and commercial real estate lending via 12 full-service branch locations and one loan production office.

Consolidation The accompanying condensed consolidated financial statements include, in conformity with generally accepted accounting principles (GAAP), the accounts of the Company, which excludes the accounts of FCB Statutory Trust I and First California Statutory Trust I. Results of operations for the three months ended March 31, 2007 include operations of FCB from the date of acquisition. The Company s historical balance sheet and results of operations before the merger and acquisition are the same as the historical information of National Mercantile. All material intercompany transactions have been eliminated.

Basis of presentation The unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. In our opinion, all normal recurring adjustments necessary for a fair presentation are reflected in the condensed consolidated financial statements. Operating results for the period ended March 31, 2008 are not necessarily indicative of the results for the full year. The condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s 2007 Annual Report on Form 10-K.

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Reclassifications Certain reclassifications have been made to the 2007 consolidated financial statements to conform with current year presentation.

Management s estimates and assumptions The preparation of the consolidated financial statements, in conformity with generally accepted accounting principles, requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheets, and revenues and expenses for the reporting periods. Actual results could differ significantly from those estimates. Significant estimations made by us primarily involve the calculation of the allowance for loan losses, the carrying amount of goodwill and deferred tax assets or liabilities and the effectiveness of derivative instruments in offsetting changes in fair value or cash flows of hedged items.

Allowance for loan losses The allowance for loan losses is established through a provision charged to expense. Loans are charged against the allowance when management believes that the collectibility of principal is unlikely. The allowance is an amount that management believes will be adequate to absorb probable losses on existing loans that may become uncollectible, based on evaluations of the collectibility of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrower s ability to pay. Various regulatory agencies, as a regular part of their examination process, periodically review the Company s allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on their judgment of information available to them at the time of their examinations.

Goodwill and other intangible assets The Company has goodwill, which represents the excess of purchase price over the fair value of net assets acquired in business combinations. In accordance with generally accepted accounting principles, goodwill is not amortized and is reviewed for impairment on an annual basis or on an interim basis if an event occurs or circumstances change that would reduce the fair value of the acquired business below its carrying value. Other intangible assets consist of trade name and core deposit intangibles. Trade name, which represents the fair value of the First California Bank name, is amortized using the straight-line method over a period of ten years. Core deposit intangibles, which represent the fair value of depositor relationships resulting from deposit liabilities assumed in acquisitions, are amortized using the straight-line method over the projected useful lives of the deposits. Core deposit and trade name intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment of goodwill and other intangibles is permanently recognized by writing down the asset to the extent that the carrying value exceeds the estimated fair value.

Income taxes The Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes,* on January 1, 2007. FIN 48 prescribes a comprehensive model and provides guidance for accounting and disclosure for uncertainty in tax provisions and for the recognition and measurement related to the accounting for income taxes. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. The adoption of FIN 48 did not have a material effect on our financial statements. We have concluded that there are no significant uncertain tax positions requiring recognition in our financial statements. Our accounting policy is to recognize interest and penalties as a component of income tax expense.

Deferred income tax assets and liabilities are determined based on the tax effects of the differences between the book and tax basis of the various balance sheet assets and liabilities. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. An estimate of probable income tax benefits that will not be realized in future years is required in determining the necessity for a valuation allowance for deferred tax assets. There were no net deferred tax assets at March 31, 2008 or December 31, 2007. There was no valuation allowance at March 31, 2008 or December 31, 2007.

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. During the first quarter of 2008, the effectiveness assessments indicated that the instruments were partially effective. To the extent the transactions were not effective the unrealized gains/losses on those instruments were reflected directly in current period earnings. During the first quarter of 2007, the effectiveness assessments indicated that the instruments were highly effective and therefore, the unrealized gains/losses on the instrument were deferred in accumulated other comprehensive income. The Company also owns an interest rate floor, which is not designated in a hedging relationship. Accordingly, all changes in fair value of the floor are recognized directly in current period earnings.

Common shares The number of common shares outstanding was 11.5 million shares at March 31, 2008.

Recent accounting pronouncements In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value under GAAP and expands required disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. The Company adopted SFAS No. 157 as of January 1, 2008 and the adoption did not have a material impact on the consolidated financial statements or results of operations of the Company. See Note 9 Fair Value Measurement for additional information.

In September 2006, Emerging Issues Task Force (EITF) Issue No. 06-04, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*, was issued. The EITF reached a consensus that for an endorsement split-dollar life insurance arrangement within the scope of this Issue, an employer should recognize a liability for future benefits under FASB Statement No. 106, *Employers Accounting for Postretirement Benefits Other Than Pensions* or Accounting Principles Board Opinion No. 12, *Omnibus Opinion 1967* based on the substantive agreement with the employee. The consensus is effective for fiscal years beginning after December 15, 2007. The Company adopted EITF Issue No. 06-4 as of January 1, 2008 and the cumulative effect of a change in accounting principle to recognize postretirement liability totaled $157,000, net of tax, and was recorded as a reduction of retained earnings.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*, which provides companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS No. 159 is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS No. 159 established presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect of the company s choice to use fair value on its earnings. SFAS No. 159 also requires entities to display the fair value of the selected assets and liabilities on the face of the balance sheet. SFAS No. 159 does not eliminate disclosure requirements of other accounting standards, including fair value measurement disclosures in SFAS No. 157. This Statement was adopted on January 1, 2008 and its adoption did not have a material impact on the consolidated financial statements or results of operations.

In February 2008, the FASB issued FASB Staff Position (FSP) 157-1 to exclude SFAS No. 13, *Accounting for Leases*, and its related interpretive accounting pronouncements that address leasing transactions, from the scope of SFAS No. 157. In February 2008, the FASB issued FSP 157-2, *Effective Date of FASB Statement No. 157*, that would permit a one-year deferral period in applying the measurement provisions of SFAS No. 157 to non-financial assets and non-financial liabilities (non-financial items) that are not recognized or disclosed at fair value in an entity s financial statements on a recurring basis (at least annually). Therefore, if the change in fair value of a non-financial item is not required to be recognized or disclosed in the financial statements on an annual basis or more frequently, the effective date of application of SFAS No. 157 to that item is deferred until fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. The Company is currently evaluating the impact, if any, that the adoption of FSP 157-2 will have on the Company s consolidated financial condition and results of operations.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities An Amendment of FASB Statement No. 133*, which enhances required disclosures regarding derivatives and hedging activities. Required disclosures will include how an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under FASB No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the impact that this statement will have on the Company s consolidated financial statements.

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NOTE 2 MERGER

On March 12, 2007, First California completed the acquisition of 100% of the outstanding common stock of FCB for a purchase price of $84.9 million pursuant to the Merger Agreement as described in Note 1 above. FCB was the parent company of First California Bank. At the date of acquisition, the Bank became a wholly-owned subsidiary of the Company. As provided by the Merger Agreement, each issued and outstanding share of common stock of FCB was exchanged for 1.7904 shares of the Company s common stock. Upon completion of the acquisition, the Company issued approximately 5.9 million shares of common stock to former shareholders of FCB, representing an approximate 49.9% interest in the Company. The fair value of $14.14 for each of the Company s common shares issued to complete the acquisition of FCB on March 12, 2007 was based on the average of the quoted market price per share of National Mercantile Bancorp s common stock for a period of three days before, the day of and three days after the announcement of the merger and acquisition on June 15, 2006. In addition, FCB had 160,100 employee stock options outstanding at the acquisition date. On the acquisition date, the Company exchanged the FCB stock options with options to purchase shares of the Company s stock which resulted in the Company granting a total of 286,643 stock options with a weighted average exercise price of $10.33 per share to former FCB employees and executives. The fair value of the stock options of $1.4 million is included in the purchase price.

Under the purchase method of accounting, the cost of approximately $84.9 million to acquire FCB, including transaction costs, was allocated to the assets acquired and liabilities assumed based on their respective fair values as of the date of acquisition as summarized below (in thousands, except share and per share amounts):

Purchase Price		
Number of shares of Company stock issued for FCB stock	5,868,586	
Price of the Company s stock on the date of Merger Agreement	$ 14.14	
Total stock consideration		$ 82,982
Fair value of FCB s stock options converted to Company stock options at acquisition date		1,408
Less: Fair value of unvested options related to future service periods		(804)
Total common stock issued and stock options assumed		83,586
Direct costs of the acquisition		1,338
Total purchase price and acquisition costs		84,924
Allocation of Purchase Price		
FCB s equity	$ 49,591	
Less: Intangible assets derecognized	(17,152)	
Adjustments to reflect assets acquired and liabilities assumed at fair value:		
Loans	(2,489)	
Core deposit intangibles	5,488	
Other assets	6,983	
Deferred tax liabilities	(3,508)	
Deposits	(624)	
Borrowings	(37)	
Subordinated debt	(200)	
Fair value of net assets acquired		38,052
Estimated goodwill arising from acquisition		$ 46,872

The Company has based the allocation of purchase price above on the fair values of the assets acquired and the liabilities assumed. Valuations of certain assets and liabilities of FCB were performed with the assistance of independent valuation consultants. None of the resulting goodwill is expected to be deductible for tax purposes.

The following information presents the pro forma results of operations for the three months ended March 31, 2007, as though the acquisition had occurred on January 1, 2007. The pro forma data was derived by combining the historical consolidated financial information of FCB and National Mercantile using the purchase method of accounting for business combinations. The pro forma results do not necessarily indicate results that would have been obtained had the acquisition actually occurred on January 1, 2007 or the results that may be achieved in the future.

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(in thousands, except per share data)	Three months ended March 31, 2007
Net interest income	$ 10,465
Noninterest income	1,128
Noninterest expense	13,471
Provision for loan losses	
Loss before tax	(1,878)
Income tax benefit	(756)
Net loss	$ (1,122)
Pro forma loss per share:	
Basic	$ (0.10)
Diluted	$ (0.10)
Pro forma weighted average shares:	
Basic	11,533
Diluted	11,533

NOTE 3 SECURITIES

The amortized cost, unrealized gains, unrealized losses and estimated fair values of securities available-for-sale at March 31, 2008 and December 31, 2007 are summarized as follows:

	March 31, 2008			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury notes	$ 508	$ 3	$	$ 511
U.S. government agency notes	14,420	399		14,819
U.S. government agency mortgage-backed securities	129,371	1,657	(41)	130,987
Collateralized mortgage obligations	59,345	20	(2,179)	57,186
Municipal securities	18,592	307	(22)	18,877
Other domestic debt securities	4,963		(311)	4,652
Securities available-for-sale	$ 227,199	$ 2,386	$ (2,553)	$ 227,032

	December 31, 2007			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury notes	$ 526	$ 3	$	$ 529
U.S. government agency notes	14,499	137	(1)	14,635
U.S. government agency mortgage-backed securities	121,155	626	(258)	121,523
Collateralized mortgage obligations	70,910	377	(518)	70,769
Municipal securities	18,598	105	(14)	18,689
Other domestic debt securities	4,963		(13)	4,950
Securities available-for-sale	$ 230,651	$ 1,248	$ (804)	$ 231,095

The Company has evaluated the unrealized losses for these U.S. agency mortgage-backed securities, collateralized mortgage obligations and municipal securities and determined that the decline in value at March 31, 2008, is temporary and is related to the fluctuation in market interest rates since purchase.

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NOTE 4 LOANS AND ALLOWANCE FOR LOAN LOSSES

The loan portfolio consists of the following:

(in thousands)	At March 31, 2008	At December 31, 2007
Commercial mortgage	$ 293,733	$ 295,496
Commercial loans and lines of credit	197,926	189,638
Construction and land development	157,302	148,101
Home mortgage	41,782	46,193
Multifamily mortgage	34,722	34,198
Home equity loans and lines of credit	22,109	22,519
Installment and credit card	6,845	10,034
Total loans	754,419	746,179
Allowance for loan losses	(7,708)	(7,828)
Loans, net	$ 746,711	$ 738,351
Loans held for sale	$ 23,927	$ 11,454

At March 31, 2008, loans held for sale were $23.9 million and consisted of commercial and multifamily mortgages originated for sale into the secondary market as well as SBA 7(a) loans, the government guaranteed portion of which will be sold into the secondary market. Loans held for sale are carried at the lower of aggregate cost or market value. Loan sale gains or losses are recorded in noninterest income based on the difference between loan sale proceeds and carrying value.

At March 31, 2008, loans with a carrying value of $525.6 million were included as blanket pledges of security for Federal Home Loan Bank, or FHLB, advances. Loan balances include net deferred fees of $1.8 million and $2.7 million at March 31, 2008 and December 31, 2007, respectively.

Most of the Company s lending activity is with customers located in Los Angeles, Orange and Ventura Counties. The Company has no significant credit exposure to any individual customer; however, the economic condition in Southern California could adversely affect customers. A significant portion of our loans are collateralized by real estate. Changes in the economic condition in Southern California could adversely affect the value of real estate.

Changes in the allowance for loan losses were as follows:

(in thousands)	Three Months Ended March 31, 2008	2007
Beginning balance	$ 7,828	$ 4,740
Provision for loan losses	450	
Additions from the merger		3,531
Loans charged-off	(606)	(1)
Transfers to undisbursed commitment allowance		18
Recoveries on loans previously charged-off	36	8
Ending balance	$ 7,708	$ 8,296
Accruing loans past due 30 89 days	$ 4,646	$ 12,693
Accruing loans past due 90 days or more	$ 1,480	$ 100
Nonaccrual loans	$ 5,720	$ 334

Foreclosed assets	$ 161	$ 303

There were $5,720,000 and $334,000 of nonaccrual loans at March 31, 2008 and March 31, 2007, respectively. Had these loans performed according to their original terms, additional interest income of approximately $117,000 and $3,000 would have been recognized in the three month periods ended March 31, 2008 and March 31, 2007, respectively.

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NOTE 5 GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill of $50.1 million at March 31, 2008 includes $46.9 million, representing the excess of the purchase price over the fair values of assets acquired and liabilities assumed in the acquisition of FCB. At December 31, 2007, goodwill was $50.2 million. The decrease in goodwill change of $117,000 was the result of final purchase price allocations recorded in the first quarter of 2008. No impairment loss was recognized for the periods ended March 31, 2008 and December 31, 2007.

Core deposit intangibles, net of accumulated amortization, was $5.8 million at March 31, 2008 and $6.0 million at December 31, 2007. Amortization expense for the three months ended March 31, 2008 and 2007 was $198,000 and $62,000, respectively.

Other intangibles includes trade name, net of accumulated amortization of $3.5 million at March 31, 2008 and $3.6 million at December 31, 2007, representing the fair value of the First California Bank name recorded as part of the acquisition. Amortization expense for the three months ended March 31, 2008 was $100,000.

NOTE 6 JUNIOR SUBORDINATED DEBENTURES

First California Capital Trust I

In July 2001, the Company issued $15.5 million aggregate principal amount of 10.25% fixed rate junior subordinated deferrable interest debentures due July 25, 2031 (Junior Subordinated Debentures) that paid interest each January 26 and July 26. The Junior Subordinated Debentures were held by National Mercantile Capital Trust I (the Trust), a Delaware business trust, formed by the Company for the sole purpose of issuing certain securities representing undivided beneficial interests in the assets of the Trust and investing the proceeds thereof in the Junior Subordinated Debentures. The Trust Preferred Securities were redeemed and the Junior Subordinated Debentures were repaid in January 2007 from the net proceeds of First California Capital Trust I securities, as described below. The redemption price of the Junior Subordinated Debentures was 107.6875% of the principal amount, plus accrued interest, or a total of $17.3 million. As a result of the redemption, the Company incurred a charge during the first quarter of 2007 of $1.6 million. The charge reflects the redemption premium and the write-off of the unamortized Debenture issuance costs.

On January 24, 2007, the Company and its newly formed subsidiary, First California Capital Trust I (First California Trust), a Delaware statutory trust, issued $16.5 million of the First California Trust s capital securities, liquidation amount $1,000 per capital security. The capital securities represent undivided beneficial interests in the First California Trust s assets, which consist primarily of the Company s Fixed/Floating Rate Junior Subordinated Deferrable Interest Debentures described below. The First California Trust s capital securities 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 holders of the First California Trust s capital securities are entitled to quarterly distributions at a fixed annual rate of 6.80% for the first five years, and a variable annual rate thereafter, which resets quarterly, equal to the 3-month LIBOR rate, plus 1.60% per annum, of the liquidation amount of $1,000 per capital security, subject to the Company s right to defer interest payments under the Fixed/Floating Rate Junior Subordinated Deferrable Interest Debentures as described below.

The Company purchased $495,000 of the First California Trust s common securities, liquidation amount $1,000 per common security. In connection with the First California Trust s sale of the capital securities, the Company entered into a Guarantee Agreement pursuant to which it guaranteed, on a subordinated basis, all distributions and payments under the First California Trust s capital securities upon liquidation, redemption, or otherwise, but only to the extent the First California Trust fails to pay such distributions from payments under the Fixed/Floating Rate Junior Subordinated Deferrable Interest Debentures it holds from the Company.

The First California Trust used the proceeds from the sale of its capital securities and its common securities to purchase from the Company $16.5 million aggregate principal amount of Fixed/Floating Rate Junior Subordinated Deferrable Interest Debentures due 2037. The Debentures bear interest at the same rates as the First California Trust s capital securities. So long as no event of default (as defined in the Indenture relating to the Debentures) has occurred, First California will have the right to defer the payment of interest on the Debentures for up to 20 consecutive quarterly periods, except that no extension period may extend beyond the maturity of the Debentures. During any deferral period, the Company may not pay dividends or make certain other distributions or payments as provided in the Indenture. The Debentures mature on March 15, 2037, and are redeemable at par, at the Company s option, at any time on or after March 15, 2012. Upon any redemption by the Company of the Debentures, the First California Trust must redeem a like amount of its capital and common securities.

Payments under the Debentures are subordinated and junior in right of payment to the prior payment of all other indebtedness of the Company that, by its terms, is not similarly subordinated.

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The Debentures may be declared immediately due and payable at the election of the trustee under the Indenture or the holders of 25% of aggregate principal amount of the First California Trust s outstanding capital securities if the Company defaults in the payment of interest (subject to its right to defer interest payments as described above) or principal under the Debentures and upon the occurrence of other events of defaults described in the Indenture.

FCB Statutory Trust I

As a result of the acquisition of FCB, the Company assumed $10,310,000 Junior Subordinated Debentures of FCB, having an estimated fair value of $10,102,000 (FCB Debentures). The FCB Debentures are due December 15, 2035 and the interest rate is fixed at 6.145% to December, 2010 at which time the interest rate will float at the three-month LIBOR rate plus 1.55%. As a result of the Company s assumption of the FCB Debentures, the Company also assumed FCB s obligations under a Guarantee Agreement pursuant to which it guaranteed, on a subordinated basis, all distributions and payments under FCB Statutory Trust I s capital securities upon liquidation, redemption, or otherwise, but only to the extent FCB Statutory Trust I fails to pay such distributions from payments under the FCB Debentures it holds from the Company.

NOTE 7 EARNINGS PER SHARE

Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if common shares were issued pursuant to the exercise of common stock options under the Company s stock option plans and if common shares were issued from the conversion of the convertible preferred stock.

The following table illustrates the computations of basic and diluted earnings per share for the periods indicated:

	Three Months Ended March 31,			
	2008		**2007**	
(in thousands, except per share data)	***Diluted***	***Basic***	***Diluted***	***Basic***
Income (loss) available to common shareholders	$ 2,189	$ 2,189	$ (1,095)	$ (1,095)
Weighted average common shares outstanding- Basic	11,485	11,485	6,903	6,903
Options				
Convertible preferred stock	273			
Weighted average common shares outstanding Diluted	11,758	11,485	6,903	6,903
Earnings (loss) per share	$ 0.19	$ 0.19	$ (0.16)	$ (0.16)

NOTE 8 COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) is the change in equity during a period from transactions and other events and circumstances from nonowner sources. Total comprehensive income (loss) was as follows:

	Three Months ended March 31,	
(in thousands)	**2008**	**2007**
Other comprehensive income (loss):		
Unrealized gain (loss) on interest rate swaps used in cash flow hedges	$ (200)	$ 202
Unrealized gain (loss) on securities available for sale	(612)	530
Reclassification adjustment for losses included in net loss		42
Other comprehensive income (loss), before tax	(812)	774
Income tax benefit (expense) related to items of other comprehensive income	390	(330)

Other comprehensive income (loss)	(422)	444
Net income (loss)	2,189	(1,095)
Comprehensive income (loss)	$ 1,767	$ (651)

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NOTE 9 FAIR VALUE MEASUREMENT

SFAS No. 157 defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurement. Upon adoption of SFAS No. 157, there was no cumulative effect adjustment to beginning retained earnings and no impact on the financial statements in the first quarter of 2008.

The following table presents information about the Company s assets and liabilities measured at fair value on a recurring basis as of March 31, 2008, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and includes situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

(in thousands)		Fair Value Measurements at March 31, 2008, Using		
	Fair value at March 31, 2008	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Available-for-sale securities	$ 227,032	$ 227,032	$	$
Interest rate swaps	997		997	
Interest rate floor	576		576	
Total assets measured at fair value	$ 228,605	$ 227,032	$ 1,573	$

The following methods were used to estimate the fair value of each class of financial instrument above:

Securities Fair values for investment securities are based on quoted market prices.

Interest rate swaps and floor The fair value of the interest rate swap and floor are computed through a model based on observable inputs.

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

This Quarterly Report on Form 10-Q contains certain forward-looking statements about the Company and its subsidiaries, which statements are intended to be covered by the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact are forward-looking statements. Such statements involve inherent risks and uncertainties, many of which are difficult to predict and are generally beyond the control of the Company. Readers are cautioned that a number of important factors could cause actual results to differ materially from those expressed in, implied or projected by, such forward-looking statements. Risks and uncertainties include, but are not limited to:

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;

the integration of acquired businesses costs more, takes longer or is less successful than expected;

technological changes;