

First California Financial Group, Inc.

Form 10-Q

November 14, 2007

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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 September 30, 2007

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
(State or Other Jurisdiction of
Incorporation or Organization)

38-3737811
(I.R.S. Employer
Identification Number)

1880 Century Park East, Suite 800

90067

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Los Angeles, California
(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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer Accelerated filer Non-accelerated filer

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

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

11,747,935 shares of Common Stock, \$0.01 par value, as of November 9, 2007

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FIRST CALIFORNIA FINANCIAL GROUP, INC.

QUARTERLY REPORT ON

FORM 10-Q

For the Quarterly Period Ended September 30, 2007

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FIRST CALIFORNIA FINANCIAL GROUP, INC. AND SUBSIDIARIES

Condensed consolidated balance sheets (unaudited)

<i>(in thousands)</i>	September 30, 2007	December 31, 2006
Cash and due from banks	\$ 28,502	\$ 13,438
Federal funds sold	275	
Securities	204,281	104,414
Loans held for sale	3,567	
Loans, net	748,179	360,978
Premises and equipment, net	18,753	5,725
Goodwill	50,216	3,225
Core deposits and other intangibles	10,015	1,184
Cash surrender value of life insurance	10,827	
Accrued interest receivable and other assets	17,081	12,599
Total assets	\$ 1,091,696	\$ 501,563
Non-interest checking	\$ 200,438	\$ 115,745
Interest checking	37,115	26,372
Money market	192,038	118,704
Savings	59,300	22,463
Certificates of deposit, under \$ 100,000	163,186	17,250
Certificates of deposit, \$100,000 and over	115,160	80,080
Total deposits	767,237	380,614
Borrowings	147,811	55,300
Junior subordinated debentures	26,635	15,464
Accrued interest payable and other liabilities	14,780	5,116
Total liabilities	956,463	456,494
Total shareholders equity	135,233	45,069
Total liabilities and shareholders equity	\$ 1,091,696	\$ 501,563

See accompanying notes.

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FIRST CALIFORNIA FINANCIAL GROUP, INC. AND SUBSIDIARIES

Condensed consolidated statements of operations (unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
<i>(in thousands, except per share data)</i>				
Interest and fees on loans	\$ 15,275	\$ 7,735	\$ 41,137	\$ 22,326
Interest on securities	2,531	1,408	6,450	3,712
Interest on federal funds sold and interest bearing deposits	68	105	114	174
Total interest income	17,874	9,248	47,701	26,212
Interest on deposits	5,265	2,122	13,169	5,736
Interest on borrowings	1,216	869	3,709	1,744
Interest on junior subordinated debentures	439	396	1,237	1,189
Total interest expense	6,920	3,387	18,115	8,669
Net interest income	10,954	5,861	29,586	17,543
Provision for loan losses		72		144
Net interest income after provision for loan losses	10,954	5,789	29,586	17,399
Service charges on deposit accounts	426	255	1,197	721
Loan sales and commissions	540		1,613	
Gain on sale of bank charters			2,375	
Trading gains (losses) on non-hedge derivatives		550		(267)
Other income	432	23	1,164	215
Total noninterest income	1,398	828	6,349	669
Salaries and employee benefits	4,242	2,131	13,125	6,413
Premises and equipment	1,018	403	2,835	1,191
Loss on early termination of debt			1,564	
Integration and conversion expenses	540		5,443	
Other expenses	2,801	999	5,858	3,480
Total noninterest expense	8,601	3,533	28,825	11,084
Income before provision for income taxes	3,751	3,084	7,110	6,984
Provision for income taxes	1,340	1,328	2,684	3,026
Net income	\$ 2,411	\$ 1,756	\$ 4,426	\$ 3,958
Earnings per share:				
Basic	\$ 0.21	\$ 0.32	\$ 0.44	\$ 0.71
Diluted	\$ 0.20	\$ 0.29	\$ 0.41	\$ 0.66

See accompanying notes.

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FIRST CALIFORNIA FINANCIAL GROUP, INC. AND SUBSIDIARIES

Consolidated statements of cash flows (unaudited)

	Nine Months Ended	
<i>(in thousands)</i>	September 30, 2007	2006
Net income	\$ 4,426	\$ 3,958
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises, equipment, leasehold improvements	585	364
Provision for credit losses		144
Trading loss on non-hedge derivatives		267
Stock-based compensation costs	620	290
Accretion of discounts on securities available-for-sale	(580)	(193)
Amortization of premiums on securities held-to-maturity		14
Amortization of intangibles	668	167
Amortization of premium on loans purchased	30	80
Loss (gain) on sale of other real estate owned	59	(48)
Gain on sale of bank charters	(2,375)	
Origination of loans held for sale	(47,585)	
Proceeds from sale and payments received from loans held for sale	66,393	
Increase in cash surrender value of life insurance	(217)	
(Increase) decrease in accrued interest receivable and other assets	(3,743)	1,038
Increase in accrued interest payable and other liabilities	5,250	718
Net cash provided by operating activities	\$ 23,531	6,799
Purchases of securities available-for-sale	(38,367)	(49,682)
Proceeds from repayment and maturities of securities available-for-sale	20,108	18,408
Proceeds from repayment and maturities of securities held-to-maturity		439
Payment to terminate non-hedge interest rate swap		(842)
Proceeds from sale of Federal Home Loan Bank stock	4,935	
Purchases of Federal Home Loan Bank stock	(2,593)	(444)
Net change in federal funds sold	61,595	
Loan originations and principal collections, net	(43,602)	(19,765)
Proceeds from sale of Bank charters	2,375	
Purchases of premises and equipment	(350)	(326)
Proceeds from sale of other real estate owned		1,104
Net cash and cash equivalents received in acquisition	6,760	
Net cash provided by (used in) investing activities	10,861	(51,108)
Net increase in demand deposits, money market and savings accounts	9,744	20,669
Net decrease in time certificates of deposit	(17,921)	(4,459)
Net increase in securities sold under agreement to repurchase and federal funds purchased		45,000
Net decrease in other borrowings	(13,236)	(20,737)
Issuance of junior subordinated debentures	16,495	
Redemption of junior subordinated debentures	(15,464)	
Proceeds from exercise of stock options	1,054	354
Redemption of fractional shares in 5-for-4 stock split		(1)
Net cash provided by (used in) financing activities	(19,328)	40,826

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Change in cash and due from banks	15,064	(3,483)
Cash and due from banks, beginning of period	13,438	16,192
Cash and due from banks, end of period	\$ 28,502	\$ 12,709

Supplemental cash flow information:

Cash paid for interest	\$ 18,119	\$ 7,365
Cash paid for income taxes	272	1,005

Supplemental disclosure of noncash investing activities:

Issuance of common stock for purchase accounting merger	82,982	
Unrealized gain (loss) on securities available-for-sale, net of tax effect	(314)	43
Unrealized gain (loss) on cash flow hedges, net of tax effect	(154)	30

See accompanying notes.

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NOTE 1 BASIS OF PRESENTATION

Organization and nature of operations First California Financial Group, Inc., or 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 First California common stock 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 complet