First California Financial Group, Inc.
Form 10-Q
May 16, 2011

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, 2011

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	38-373811
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

3027 Townsgate Road, Suite 300 Westlake Village, California	91361
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: (805) 322-9655

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 has submitted electronically and posted on its corporate Web site, if

any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ 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.

28,416,324 shares of Common Stock, $0.01 par value, as of May 13, 2011

FIRST CALIFORNIA FINANCIAL GROUP, INC.
QUARTERLY REPORT ON
FORM 10-Q

For the Quarterly Period Ended March 31, 2011

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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, except share and per share data)	March 31, 2011	December 31, 2010
Cash and due from banks	$35,371	$ 25,487
Interest bearing deposits with other banks	119,996	62,516
Securities available-for-sale, at fair value	311,094	272,439
Non-covered loans, net	922,219	930,712
Covered loans	185,005	53,870
Premises and equipment, net	20,067	19,710
Non-covered foreclosed property	20,855	26,011
Covered foreclosed property	11,096	977
Goodwill	60,720	60,720
Other intangibles, net	9,754	9,915
FDIC shared-loss asset	87,073	16,725
Deferred tax assets, net	—	4,563
Cash surrender value of life insurance	12,342	12,232
Accrued interest receivable and other assets	34,841	25,457
Total assets	$1,830,433	$ 1,521,334
Non-interest checking	$327,873	$ 331,648
Interest checking	96,632	88,638
Money market and savings	457,728	388,289
Certificates of deposit, under $100,000	128,138	84,296
Certificates of deposit, $100,000 and over	401,305	263,417
Total deposits	1,411,676	1,156,288
Securities sold under agreements to repurchase	30,000	45,000
Federal Home Loan Bank advances	124,791	86,500
Junior subordinated debentures	26,805	26,805
Deferred tax liabilities, net	11,258	—
FDIC shared-loss liability	3,573	988
Accrued interest payable and other liabilities	8,244	7,712
Total liabilities	1,616,347	1,323,293
Perpetual preferred stock; authorized 2,500,000 shares		
Series A - $0.01 par value, 1,000 shares issued and outstanding as of March 31, 2011 and December 31, 2010	1,000	1,000
Series B - $0.01 par value, 25,000 shares issued and outstanding as of March 31, 2011 and December 31, 2010	23,742	23,627
Common stock, $0.01 par value; authorized 100,000,000 shares; 28,561,122 shares issued at March 31, 2011 and 28,517,161 shares issued at December 31, 2010;	282	282

28,214,721 and 28,170,760 shares outstanding at March 31, 2011 and December 31, 2010		
Additional paid-in capital	175,193	175,102
Treasury stock, 346,401 shares at cost at March 31, 2011 and at December 31, 2010	(3,061)	(3,061)
Retained earnings	19,987	4,827
Accumulated other comprehensive loss	(3,057)	(3,736)
Total shareholders' equity	214,086	198,041
Total liabilities and shareholders' equity	$1,830,433	$ 1,521,334

See accompanying notes to condensed consolidated financial statements.

FIRST CALIFORNIA FINANCIAL GROUP, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations (unaudited)

	Three Months Ended March 31,	
	2011	2010
(in thousands, except per share data)		
Interest and fees on loans	$ 15,132	$ 12,987
Interest on securities	1,311	1,589
Interest on federal funds sold and interest bearing deposits	69	20
Total interest income	16,512	14,596
Interest on deposits	2,342	2,172
Interest on borrowings	1,060	1,312
Interest on junior subordinated debentures	331	439
Total interest expense	3,733	3,923
Net interest income before provision for loan losses	12,779	10,673
Provision for non-covered loan losses	2,500	1,754
Net interest income after provision for loan losses	10,279	8,919
Service charges on deposit accounts	897	785
Earnings on cash surrender value of life insurance	110	111
Net gain on sale of securities	—	132
Impairment loss on securities	(1,066)	(18)
Gain on acquisition	34,736	—
Other income	232	183
Total noninterest income	34,909	1,193
Salaries and employee benefits	6,068	4,970
Premises and equipment	1,539	1,537
Data processing	1,061	595
Legal, audit, and other professional services	1,660	182
Printing, stationary, and supplies	96	12
Telephone	166	224
Directors' expense	106	120
Advertising, marketing and business development	369	227
Postage	56	56
Insurance and regulatory assessments	663	800
Net loss on and expense of foreclosed property	5,252	78
Amortization of intangible assets	416	416
Other expenses	861	699
Total noninterest expense	18,313	9,916
Income before provision for income taxes	26,875	196

Provision for income taxes	11,287	79
Net income	$ 15,588	$ 117
Preferred stock dividends	$ (313)	$ (313)
Net income (loss) available to common stockholders	$ 15,275	$ (196)
Net income (loss) per common share:		
Basic	$0.54	$(0.02)
Diluted	$0.54	$(0.02)

See accompanying notes to condensed consolidated financial statements.

FIRST CALIFORNIA FINANCIAL GROUP, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows (unaudited)

(in thousands)	Three Months Ended March 31, 2011	2010
Net income	$ 15,588	$ 117
Adjustments to reconcile net income to net cash from operating activities:		
Provision for non-covered loan losses	2,500	1,754
Stock-based compensation costs	90	198
Gain on acquisition	(34,736)	—
Gain on sales of securities	—	(132)
Net (gain)/loss on sale and valuation adjustments of foreclosed property	5,084	(5)
Impairment loss on securities	1,066	18
Amortization of net premiums on securities available-for-sale	1,074	954
Depreciation and amortization of premises and equipment	500	463
Loss of disposal of premises and equipment	—	50
Amortization of core deposit and trade name intangibles	416	416
Increase in cash surrender value of life insurance	(110)	(111)
Decrease in deferred tax assets, net of effect of acquisition	496	1,540
(Increase) decrease in accrued interest receivable and other assets, net of effects of acquisition	(257)	318
Decrease in accrued interest payable and other liabilities, net of effects of acquisition	(3,222)	(735)
Net cash (used) provided by operating activities	(11,511)	4,845
Purchases of securities available-for-sale, net of effects from acquisition	(37,576)	—
Proceeds from repayments and maturities of securities available-for-sale	39,003	22,933
Proceeds from sales of securities available-for-sale	—	35,564
Purchases of Federal Home Loan Bank and other stock	—	(6)
Net change in federal funds sold and interest bearing deposits, net of effects from acquisition	4,610	(46,429)
Loan originations and principal collections, net of effects of acquisition	11,152	13,369
Purchases of premises and equipment, net of effects of acquisition	(1,054)	(51)
Proceeds from redemption of Federal Home Loan Bank and other stock	475	—
Proceeds from sale of non-covered foreclosed property	45	336
Proceeds from sale of covered foreclosed property	2,334	—
Net cash acquired in acquisition	36,730	—
Net cash provided by investing activities	55,719	25,716
Net decrease in noninterest-bearing deposits, net of effects of acquisition	(45,019)	(11,343)
Net increase (decrease) in interest-bearing deposits, net of effects of acquisition	34,258	(37,877)
Net decrease in FHLB advances and other borrowings, net of effects of acquisition	(23,250)	(9,987)
Dividends paid on preferred stock	(313)	(313)
Proceeds from issuance of common stock	—	38,916
Net cash used by financing activities	(34,324)	(20,604)

Change in cash and due from banks	9,884	9,957
Cash and due from banks, beginning of period	25,487	26,757
Cash and due from banks, end of period	$ 35,371	$ 36,714
Supplemental cash flow information:		
Cash paid for interest	$ 3,760	$ 3,824
Cash paid for income taxes	$ 1,370	$ 1,000
Supplemental disclosure of noncash items:		
Net change in fair value of securities available-for-sale, net of tax	$ 496	$ 1,567
Net change in fair value of cash flow hedges, net of tax	$ 2	$ (51)
Covered loans transferred to foreclosed property	$ 1,401	$ 1,595
Acquisitions:		
Assets acquired	$ 365,439	—
Liabilities assumed	$ 345,285	—

See accompanying notes to condensed consolidated financial statements.

NOTE 1 – NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Organization and nature of operations – First California Financial Group, Inc., or First California, or the Company, is a bank holding company incorporated under the laws of the State of Delaware and headquartered in Westlake Village, California. The principal asset of the Company is the capital stock of First California Bank, or the Bank. The Bank is a full-service commercial bank headquartered in Westlake Village, California, chartered under the laws of the State of California and subject to supervision by the California Department of Financial Institutions and the Federal Deposit Insurance Corporation, or the FDIC. The FDIC insures the Bank's deposits up to the maximum legal limit.

On November 5, 2010, the Bank assumed all of the deposits and substantially all of the assets of Western Commercial Bank, or WCB, located in Woodland Hills, California, from the FDIC. The Bank acquired approximately $109 million of total assets, including $55 million in loans related to the transaction. The Bank assumed approximately $105 million of deposits and recorded a pre-tax bargain purchase gain of $2.3 million in connection with this transaction. This transaction increased the number of the Bank's full-service branch locations to 18 and the Bank fully integrated the former WCB branch into its full-service branch network prior to December 31, 2010.

On February 18, 2011, the Bank assumed certain liabilities and acquired certain assets and substantially all of the operations of San Luis Trust Bank, or SLTB, located in San Luis Obispo, California, from the FDIC. The Bank acquired, received and recognized certain assets with an estimated fair value of approximately $365 million, including $139 million of loans, $99 million of cash and federal funds sold, $70 million of a FDIC shared-loss asset, $41 million of securities, $11 million of foreclosed property and $5 million of other assets. Liabilities with an estimated fair value of approximately $345 million were also assumed and recognized, including $266 million of deposits, $62 million of Federal Home Loan Bank advances, $15 million in a deferred tax liability, $3 million of a FDIC shared-loss liability and $0.4 million of other liabilities. The Bank recorded a pre-tax bargain purchase gain of $34.7 million in connection with this transaction. This transaction increased the number of the Bank's full-service branch locations to 19 and the Bank expects to fully integrate the former SLTB branch location into its full-service branch network in the second quarter of 2011.

On April 8, 2011, the Bank completed the acquisition of the Electronic Banking Solutions division of Palm Desert National Bank. The transaction included the division's customer base, core deposits, and employees. At December 31, 2010, the division had deposits of approximately $74 million and revenues for 2010 were $3.3 million. At the closing date, deposits were approximately $91 million. The Electronic Payment Services Division, its new name under the Bank, is a leader in the electronic payment industry with a history of successful stored-value card programs and merchant acquiring programs. The Bank will issue prepaid cards and sponsor merchant acquiring services for all national and regional networks, including Visa, MasterCard, and Discover throughout all 50 states and US territories.

The Bank serves the comprehensive financial needs of businesses and consumers in Los Angeles, Orange, Riverside, San Diego, San Bernardino, San Luis Obispo and Ventura counties through 19 full-service branch locations.

Consolidation – The accompanying condensed consolidated financial statements include, in conformity with generally accepted accounting principles in the United States of America, the accounts of the Company, the Bank and SC Financial, an inactive subsidiary of First California. The Company does not consolidate the accounts of FCB Statutory Trust I and First California Statutory Trust I, or the Trusts, in the consolidated financial statements. The Company does include, however, the junior subordinated debentures issued by the Company to the Trusts on the consolidated balance sheets. Results of operations for the three months ended March 31, 2011 include the effects of the FDIC-assisted WCB and SLTB transactions from the date of the acquisition. All material intercompany transactions have been eliminated.

Basis of presentation – The unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 8-03 of Regulation S-X as promulgated by the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnote disclosures normally required by generally accepted accounting principles for complete financial statements. In our opinion, all normal recurring adjustments necessary for a fair presentation are reflected in the unaudited condensed consolidated financial statements. Operating results for the period ended March 31, 2011 are not necessarily indicative of the results of operations that may be expected for any other interim period or for the year ending December 31, 2011. In preparing these financial statements, the Company has evaluated events and transactions subsequent to March 31, 2011 for potential recognition or disclosure.The unaudited condensed consolidated financial statements should be read in conjunction with the audited condensed consolidated financial statements and notes thereto included in the Company's 2010 Annual Report on Form 10-K.

Reclassifications – Certain reclassifications have been made to the 2010 consolidated financial statements to conform to the current year presentation.

Management's estimates and assumptions – The preparation of the consolidated financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of

assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported revenues and expenses for the reporting periods. Actual results could differ significantly from those estimates. Significant estimations made by management primarily involve the calculation of the allowance for loan losses, the carrying amount of deferred tax assets, the carrying amount of the FDIC shared-loss asset, the assessments for impairment related to goodwill and securities, the estimated fair value of financial instruments 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 collectability 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 uncollectable, 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 delinquent and nonaccrual loans, 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 levels, the amount of undisbursed off-balance sheet commitments, and a migration analysis of historical losses and recoveries for the prior twenty quarters. Individual loans are also evaluated for impairment and if a portion of a loan is impaired, the impaired amount is charged-off or a specific reserve is allocated for that loan. 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. The allowance for loan losses was $18.7 million at March 31, 2011 and $17.0 million at December 31, 2010.

Foreclosed property – The Company acquires, through foreclosure or through full or partial satisfaction of a loan, real or personal property. At the time of foreclosure, the Company obtains an appraisal of the property and records the property at its estimated fair value less costs to sell. We charge the allowance for loan losses for the loan amount in excess of the fair value of the foreclosed property received; we credit earnings for the fair value amount of the foreclosed property in excess of the loan due. Subsequent to foreclosure, the Company periodically assesses our disposition efforts and the estimated fair value of the foreclosed property. The Company establishes a valuation allowance through a charge to earnings for estimated declines in fair value subsequent to foreclosure. Operating income and operating expense related to foreclosed property is included in earnings as are any ultimate gains or losses on the sale of the foreclosed property. Our recognition of gain is, however, dependent on the buyer’s initial investment in the purchase of foreclosed property meeting certain criteria. The estimated fair value of foreclosed property was $32.0 million at March 31, 2011 and $27.0 million at December 31, 2010.

Deferred income taxes – The Company recognizes deferred tax assets subject to our judgment that realization of such assets are more-likely-than-not. A valuation allowance is established when the Company determines that the realization of income tax benefits may not occur in future years. There was no valuation allowance at March 31, 2011 or December 31, 2010. There were net deferred tax liabilities of $11.3 million at March 31, 2011 and net deferred tax assets of $4.6 million at December 31, 2010. The significant change in the balance since year-end 2010 was due to the $14.6 million of deferred tax liabilities recorded in relation to the FDIC-assisted San Luis Trust Bank acquisition on February 18, 2011.

FDIC shared-loss asset – The FDIC shared-loss asset is initially recorded at fair value, based on the discounted value of expected future cash flows under the shared-loss agreements. The difference between the present value and the undiscounted cash flows the Company expects to collect from the FDIC will be accreted or amortized into non-interest income over the life of the FDIC shared-loss asset. Subsequent to initial recognition, the FDIC indemnification asset is reviewed quarterly and adjusted for any changes in expected cash flows based on recent performance and expectations for future performance of the covered portfolio. These adjustments are measured on the

same basis as the related covered loans, at a pool level, and covered foreclosed property. Generally, any increases in cash flow of the covered assets over those previously expected will result in prospective increases in the loan pool yield and amortization of the FDIC shared-loss asset. Any decreases in cash flow of the covered assets under those previously expected will trigger impairments on the underlying loan pools and will result in a corresponding gain of the FDIC shared-loss asset. Increases and decreases to the FDIC shared-loss asset are recorded as adjustments to non-interest income.

Derivative instruments and hedging – For derivative instruments designated in cash flow hedging relationships, we assess the effectiveness of the instruments in offsetting changes in the overall cash flows of the designated hedged transactions on a quarterly basis. The Company recognizes the unrealized gains or losses of derivative instruments directly in current period earnings to the extent these instruments are not effective. At March 31, 2011 the Company has $26.8 million notional forward-starting interest rate caps to limit the variable interest rate payments on our $26.8 million junior subordinated debentures. Our 2011 first quarter effectiveness assessment indicated that these instruments were effective.

Assessments of impairment – Goodwill is assessed 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. The implied fair value of goodwill is estimated by comparing the estimated fair value of the Company to the estimated fair value of the Company’s individual assets, liabilities, and identifiable intangible assets. Impairment exists when the carrying amount of goodwill exceeds this implied fair value.

First California uses independent data where possible in determining the fair value of the Company and in determining appropriate market factors used in the fair value calculations. At December 31, 2010, the annual assessment resulted in the conclusion that goodwill was not impaired. At March 31, 2011, an interim assessment was not performed as first quarter results were not materially different than the estimates used in the year-end assessment and the March 31, 2011 stock price (and market capitalization) increased by 34 percent from year-end.

An impairment assessment is performed quarterly on the securities available-for-sale portfolio in accordance with Financial Accounting Standards Board, or FASB, accounting standards codification guidance related to the consideration of impairment related to certain debt and equity securities. All of the securities classified as available-for-sale are debt securities.

If the Company does not intend to sell, and it is more likely than not that the entity is not required to sell a debt security before recovery of its cost basis, other-than-temporary impairment is separated into (a) the amount representing credit loss and (b) the amount related to other factors. The amount of the other-than-temporary impairment related to credit loss is recognized in earnings and other-than-temporary impairment related to other factors is recognized in other comprehensive income (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, the expected future cash flows from the security and the Company’s ability and intent to hold the security until the fair value recovers. Please see the “Securities” section of Management’s Discussion and Analysis in this document for a detailed explanation of the impairment analysis process. The Company will continue to evaluate the securities portfolio for other-than-temporary impairment at each reporting date and can provide no assurance there will not be an other-than-temporary impairment in future periods.

For the three months ended March 31, 2011, other-than-temporary impairment related to the credit loss on debt securities and recognized in earnings was $1.1 million. For the same period in 2010, we recognized an impairment charge of $18,000 on a $1.0 million community development-related equity investment.

NOTE 2 – RECENTLY ISSUED AND ADOPTED ACCOUNTING PRONOUNCEMENTS

In December 2010, the FASB issued ASU No. 2010-29, Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations. This update clarifies that if comparative financial statements are presented in disclosure of supplementary pro forma information for a business combination, revenue and earnings of the combined entity should be disclosed as though the business combination occurred as of the beginning of the comparable annual prior annual reporting period only. Additionally, supplemental pro forma disclosures should include a description of the nature and amount of material, nonrecurring pro forma adjustments included in the reported pro forma revenue and earnings. This update is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The adoption of the ASU did not have a material impact on the Company’s consolidated financial statements.

In April 2011, the FASB issued ASU No. 2011-02, A Creditor’s Determination of Whether a Restructuring is a Troubled Debt Restructuring. The Update provides additional guidance relating to when creditors should classify loan modifications as troubled debt restructurings. The ASU also ends the deferral issued in January 2011 of the disclosures about troubled debt restructurings required by ASU No. 2010-20. The provisions of ASU No. 2011-02 and the disclosure requirements of ASU No. 2010-20 are effective for the Company’s interim reporting period ending September 30, 2011. The guidance applies retrospectively to restructurings occurring on or after January 1, 2011. The adoption of this ASU is not expected to have a material impact on the Company’s consolidated financial statements.

NOTE 3 – ACQUISITION

On February 18, 2011, or the SLTB Transaction Date, the Bank assumed certain liabilities and acquired certain assets and substantially all of the operations of SLTB from the FDIC, acting in its capacity as receiver of SLTB, pursuant to the terms of a purchase and assumption agreement entered into by the Bank and the FDIC, or the Purchase Agreement. The Bank acquired, received, and recognized certain assets of approximately $365 million, including $139 million in loans, $99 million of cash and cash equivalents, $41 million of securities and $11 million of foreclosed property related to the transaction. These acquired assets represent approximately 20 percent of consolidated total assets at March 31, 2011. The Bank also assumed approximately $266 million of deposits and $62 million of FHLB advances related to the transaction. The Bank also recorded a FDIC shared-loss asset of $70 million, a core deposit intangible of $0.3 million, deferred tax liabilities of $15 million, a FDIC shared-loss liability of $2.6 million and a premium on time deposits acquired of $0.8 million related to the transaction. The Bank continues to operate the one former SLTB branch location as part of the Bank's 19 branch locations. The Bank desired this transaction to expand its footprint into the California central coast region.

As part of the Purchase Agreement, the Bank and the FDIC entered into shared-loss agreements, whereby the FDIC will cover a substantial portion of any future losses on loans (and related unfunded loan commitments), foreclosed property and accrued interest on loans for up to 90 days. We refer to the acquired assets subject to the shared-loss agreements collectively as covered assets. Under the terms of the shared-loss agreements, the FDIC will absorb 80 percent of losses and share in 80 percent of loss recoveries. The shared-

loss agreements for commercial and residential mortgage loans are in effect for 5 years and 10 years, respectively, from the Transaction Date and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the Transaction Date.

In March 2021, approximately ten years following the Transaction Date, the Bank is required to perform a calculation and determine if a payment to the FDIC is necessary. The payment amount will be 50 percent of the excess, if any, of (i) 20 percent of the intrinsic loss estimate ($99.0 million) minus (ii) the sum of (a) 20 percent of the net loss amount, plus (b) 25 percent of the asset discount bid ($58.0 million), plus (c) 3.5 percent of total loss share assets at acquisition. At the Transaction Date, the Bank estimated a liability, on a present value basis, of $2.6 million under this provision.

Under the acquisition method of accounting, the Bank recorded the assets acquired and liabilities assumed based on their estimated fair values as of the Transaction Date. Results of operations for the three months ended March 31, 2011 include the effects of the SLTB acquisition from the Transaction Date.

The following table summarizes the estimated fair values of the assets acquired, received and recognized and the liabilities assumed and recognized as of the Transaction Date.

		(Dollars in thousands)
Assets Acquired:		
Cash and cash equivalents	$	98,820
Securities		40,972
Covered loans		138,792
Covered foreclosed property		11,052
FDIC shared-loss asset		70,293
Other assets		5,510
Total assets acquired	$	365,439
Liabilities Assumed:		
Deposits	$	266,149
FHLB advances		61,541
FDIC shared-loss liability		2,564
Deferred taxes		14,594
Other liabilities		437
Total liabilities assumed		345,285
Net assets acquired (after-tax bargain purchase gain)		20,154
Total liabilities and net assets acquired	$	365,439

The Bank based the allocation of the purchase price above on the fair values of the assets acquired and the liabilities assumed. The net gain represents the excess of the estimated fair value of the assets acquired over the estimated fair value of the liabilities assumed and is influenced significantly by the FDIC-assisted transaction process. Under the FDIC-assisted transaction process, only certain assets and liabilities are transferred to the acquirer and, depending on the nature and amount of the acquirer's bid, the FDIC may be required to make a cash payment to the acquirer. The Bank received a cash payment from the FDIC for $34.4 million. The book value of net assets transferred to the Bank was $23.6 million (i.e., the cost basis). The pre-tax gain of $34.7 million or the after-tax gain of $20.2 million recognized by the Company is considered a bargain purchase transaction under ASC 805 "Business Combinations"

since the total acquisition-date fair value of the identifiable net assets acquired exceeded the fair value of the consideration transferred. The gain was recognized as noninterest income in the Company's Consolidated Statements of Operations. Noninterest expense for the first quarter of 2011 included integration and conversion expenses related to the SLTB acquisition of approximately $515,000. The "Salaries and employee benefits", "Data processing" and "Legal, audit, and other professional services" categories were affected on the Company's Consolidated Statements of Operations.

The Bank did not immediately acquire the banking facility, leases, or furniture or equipment of SLTB as part of the Purchase Agreement. However, the Bank has the option to purchase or lease the banking facility and furniture and equipment from the FDIC. The term of these options expires 90 days after the Transaction Date, unless extended by the FDIC. Acquisition costs of the banking facility and furniture and equipment will be based on current appraisals and determined at a later date. Currently, the banking facility and equipment are being leased from the FDIC on a month-to-month basis. Other immaterial settlements are still pending with the FDIC, and once settled, may result in adjustments to the above amounts, including the bargain purchase gain.

` The acquisition of assets and liabilities of SLTB were significant at a level to require disclosure of one year of historical financial statements and related pro forma disclosure. However, given the pervasive nature of the shared-loss agreements entered into with the FDIC, the historical information of SLTB are much less relevant for purposes of assessing the future operations of the combined entity. In addition, prior to closure, SLTB had not completed an audit of their financial statements, and the Company determined that audited financial statements are not and will not be reasonably available for the year ended December 31, 2010. Given these considerations, the Company requested, and received, relief from the Securities and Exchange Commission from submitting certain historical and pro forma financial information of SLTB.

On November 5, 2010, the Bank acquired certain assets and assumed certain liabilities of WCB from the FDIC, acting in its capacity as receiver of WCB. The Bank acquired approximately $109 million of total assets, including $55 million in loans related to the transaction. The Bank also assumed approximately $105 million of deposits related to the transaction. As part of the purchase and assumption agreement, the Bank and the FDIC entered into shared-loss agreements, whereby the FDIC will cover a substantial portion of any future losses on loans (and related unfunded loan commitments), foreclosed property and accrued interest on loans for up to 90 days. Under the terms of the shared-loss agreements, the FDIC will absorb 80 percent of losses and share in 80 percent of loss recoveries. The shared-loss agreements for commercial and residential mortgage loans are in effect for 5 years and 10 years, respectively, from November 5, 2010 and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from November 5, 2010. The Bank operates the one former WCB branch location as part of the Bank's 19 branch locations. The Bank desired this transaction to increase its penetration and market share in its existing markets.

The Bank received a cash payment from the FDIC for $2.4 million. The book value of assets transferred to the Bank was $111.1 million. The pre-tax gain of $2.3 million or the after-tax gain of $1.4 million recognized by the Company is considered a bargain purchase gain and was recognized as noninterest income in the Company's Consolidated Statements of Operations for the year ended December 31, 2010.

NOTE 4 – SECURITIES

The amortized cost, gross unrealized gains, gross unrealized losses and estimated fair values of securities available-for-sale at March 31, 2011 and December 31, 2010 are summarized as follows:

	March 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
U.S. Treasury notes/bills	$48,895	$34	$(3)	$48,926
U.S. government agency notes				