First California Financial Group, Inc.
Form 10-Q
November 16, 2009

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, 2009

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

11,627,008 shares of Common Stock, $0.01 par value, as of November 6, 2009

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

For the Quarterly Period Ended September 30, 2009

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

FIRST CALIFORNIA FINANCIAL GROUP, INC. AND SUBSIDIARIES
Consolidated Balance Sheets (unaudited)

(in thousands)	September 30, 2009	December 31, 2008
Cash and due from banks	$ 42,753	$ 13,712
Federal funds sold	61,395	35,415
Securities available-for-sale, at fair value	302,378	202,462
Loans held-for-sale	—	31,401
Loans, net	928,714	780,373
Premises and equipment, net	20,702	20,693
Goodwill	60,720	50,098
Other intangibles, net	11,997	8,452
Deferred tax assets, net	514	2,572
Cash surrender value of life insurance	11,682	11,355
Foreclosed property	6,120	327
Accrued interest receivable and other assets	22,653	21,185
Total assets	$ 1,469,628	$ 1,178,045
Non-interest checking	$ 297,995	$ 189,011
Interest checking	83,717	22,577
Money market and savings	320,816	198,606
Certificates of deposit, under $100,000	140,122	191,888
Certificates of deposit, $100,000 and over	282,381	215,513
Total deposits	1,125,031	817,595
Securities sold under agreements to repurchase	45,000	45,000
Federal Home Loan Bank advances	104,000	122,000
Junior subordinated debentures	26,740	26,701
Accrued interest payable and other liabilities	7,799	7,826
Total liabilities	1,308,570	1,019,122
Perpetual preferred stock; authorized 2,500,000 shares		
Series A - $0.01 par value, 1,000 shares issued and outstanding as of September 30, 2009 and December 31, 2008	1,000	1,000
Series B - $0.01 par value, 25,000 shares issued and outstanding as of September 30, 2009 and December 31, 2008	23,056	22,713
Common stock, $0.01 par value; authorized 25,000,000 shares; 11,972,034 shares issued at September 30, 2009 and 11,807,624 shares issued at December 31, 2008; 11,625,633 and 11,462,964 shares outstanding at September 30, 2009 and December 31, 2008	118	118
Additional paid-in capital	136,389	135,603
	(3,061)	(3,050)

Treasury stock, 346,401 shares at cost at September 30, 2009 and 344,660 shares at December 31, 2008		
Retained earnings	8,600	11,559
Accumulated other comprehensive loss	(5,044)	(9,020)
Total shareholders’ equity	161,058	158,923
Total liabilities and shareholders’ equity	$ 1,469,628	$ 1,178,045

See accompanying notes to consolidated financial statements.

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

(in thousands, except per share data)	Three months ended Sept. 30, 2009	Three months ended Sept. 30, 2008	Nine months ended Sept. 30, 2009	Nine months ended Sept. 30, 2008
Interest and fees on loans	$ 13,331	$ 12,674	$ 39,144	$ 39,391
Interest on securities	2,819	2,870	9,847	8,827
Interest on federal funds sold and interest bearing deposits	78	4	368	18
Total interest income	16,228	15,548	49,359	48,236
Interest on deposits	2,938	2,960	9,519	10,375
Interest on borrowings	1,455	1,801	4,512	5,599
Interest on junior subordinated debentures	439	439	1,365	1,316
Total interest expense	4,832	5,200	15,396	17,290
Net interest income before provision for loan losses	11,396	10,348	33,963	30,946
Provision for loan losses	4,117	300	10,296	950
Net interest income after provision for loan losses	7,279	10,048	23,667	29,996
Service charges on deposit accounts	1,111	729	3,199	1,885
Loan sales and commissions	22	143	76	382
Net gain on sale of securities	1,639	—	4,310	—
Net gain (loss) on derivatives	—	(1)	—	857
Impairment loss on securities	—	—	(565)	—
Other income	158	146	565	865
Total noninterest income	2,930	1,017	7,585	3,989
Salaries and employee benefits	5,011	4,076	16,032	13,423
Premises and equipment	1,558	1,117	4,871	3,322
Data processing	862	293	1,812	1,008
Legal, audit and other professional services	541	530	1,758	1,386
Printing, stationery and supplies	197	160	600	492
Telephone	237	203	764	540
Directors’ expense	142	112	398	322
Advertising, marketing and business development	245	286	1,144	939
Postage	39	36	190	151
Insurance and regulatory assessments	849	364	2,504	932
Loss on and expense of foreclosed property	193	—	442	—
Amortization of intangible assets	417	298	1,210	893
Market value loss on loans held-for-sale	—	—	709	—
Other expenses	1,003	709	2,513	2,001
Total noninterest expense	11,294	8,184	34,947	25,409

Income (loss) before provision for income taxes	(1,085	)	2,881		(3,695	)	8,576	
Provision (benefit) for income taxes	(949	)	1,120		(1,898	)	3,342	
Net income (loss)	$ (136	)	$ 1,761		$ (1,797	)	$ 5,234	
Earnings (loss) per common share:								
Basic	$ (0.04	)	$ 0.15		$ (0.23	)	$ 0.46	
Diluted	$ (0.04	)	$ 0.15		$ (0.23	)	$ 0.45	

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended Sept. 30,	
(in thousands)	2009	2008
Net income (loss)	$ (1,797)	$ 5,234
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Provision for loan losses	10,296	950
Stock-based compensation costs	774	415
Gain on sales of securities and loans	(4,310)	(162)
Gain on settlement of derivatives	—	(857)
Loss on sale of foreclosed property	72	—
Market value loss on loans held-for-sale	709	—
Impairment loss on securities	565	—
Amortization (accretion) of net premiums (discounts) on securities available-for-sale	578	(254)
Depreciation and amortization of premises and equipment	1,194	1,087
Amortization of core deposit and trade name intangibles	1,210	893
FHLB stock dividends	—	(324)
Origination of loans held-for-sale	—	(13,277)
Proceeds from sale of, and payments received from, loans held-for-sale	181	24,908
Increase in cash surrender value of life insurance	(327)	(317)
Decrease in deferred tax assets	2,058	—
Increase in accrued interest receivable and other assets, net of effects from acquisition	(446)	(3,983)
Decrease in accrued interest payable and other liabilities, net of effects from acquisition	(427)	(5,913)
Net cash provided by operating activities	10,330	8,400
Purchases of securities available-for-sale, net of effects from acquisition	(171,273)	(25,748)
Proceeds from repayment and maturities of securities available-for-sale	48,567	33,318
Proceeds from sales of securities available-for-sale	120,483	—
Proceeds from redemption of Federal Home Loan Bank stock	—	1,581
Purchases of Federal Home Loan Bank and other stock	(54)	(4,257)
Net change in federal funds sold, net of effects from acquisition	87,110	(725)
Loan originations and principal collections, net of effects from acquisition	(35,082)	(28,262)
Purchases of premises and equipment, net of effects from acquisition	(1,039)	(3,547)
Proceeds from sale of foreclosed property	949	42
Net cash paid in acquisition	(48,790)	—
Net cash provided (used) in investing activities	871	(27,598)
Net increase (decrease) in noninterest-bearing deposits, net of effects of acquisition	14,737	(2,740)
Net increase (decrease) in interest-bearing deposits, net of effects of acquisition	21,885	(573)
Net increase (decrease) in FHLB advances and other borrowings	(17,961)	25,659
Dividends paid on preferred stock	(819)	—
Purchases of treasury stock	(11)	(666)
Proceeds from exercise of stock options	9	86
Net cash (used) provided by financing activities	17,840	21,766

Change in cash and due from banks	29,041	2,568
Cash and due from banks, beginning of period	13,712	17,413
Cash and due from banks, end of period	$ 42,753	$ 19,981
Supplemental cash flow information:		
Cash paid for interest	$ 13,953	$ 15,813
Cash paid for income taxes	$ 950	$ 6,188
Supplemental disclosure of noncash items:		
Net change in unrealized (loss) gain on securities available-for-sale	$ 5,520	$ (4,957)
Net change in unrealized loss on cash flow hedges	$ —	$ (95)
Transfer of loans to foreclosed property	$ 6,893	$ —
Transfer of loans held-for-sale to loans	$ 31,221	$ —

See accompanying notes to consolidated financial statements.

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

The Bank serves the comprehensive financial needs of businesses and consumers in Los Angeles, Orange, Riverside, San Diego, San Bernardino and Ventura counties through 17 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 nine months ended September 30, 2009 include the effects of the FDIC-assisted 1st Centennial Bank transaction from the date of the transaction. 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 September 30, 2009 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, 2009. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's 2008 Annual Report on Form 10-K. In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through November 13, 2009, the date the financial statements were available to be issued.

Reclassifications – Certain reclassifications have been made to the 2008 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 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 uncollectible, based on evaluations of the collectability of loans and prior loan loss experience. The evaluation includes an assessment of the following factors: any external loan review and any regulatory examination, estimated probable loss exposure on each pool of loans, concentrations of credit, value of collateral, the level of delinquency and nonaccruals, trends in the portfolio volume, effects of any changes in the lending policies and procedures, changes in lending personnel, present economic conditions at the local, state and national level, the amount of undisbursed off-balance sheet commitments, and a migration analysis of historical losses and recoveries for the prior eight quarters. Various regulatory agencies, as a regular part of their examination process, periodically review 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 $12.1 million at September 30, 2009 and $8.0 million at December 31, 2008.

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Deferred income taxes – Deferred income tax assets and liabilities represent 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 was no valuation allowance at September 30, 2009 or December 31, 2008. There were net deferred tax assets of $0.5 million at September 30, 2009 and $2.6 million at December 31, 2008.

Derivative instruments and hedging – The Company assesses the effectiveness of derivative instruments designated in cash flow hedging relationships in off-setting changes in the overall cash flows of designated hedged transactions on a quarterly basis. During 2008, the effectiveness assessments indicated that the instruments were partially effective. To the extent the transactions were not effective the unrealized gains or losses on those instruments were reflected directly in current period earnings. During 2008, the Company also owned an interest rate floor, which was not designated in a hedging relationship. Accordingly, all changes in fair value of the floor were recognized directly in current period earnings. The Company owned no derivative instruments in 2009.

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. Impairment exists when the carrying amount of goodwill exceeds its 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, 2008, the annual assessment resulted in the conclusion that goodwill was not impaired. At September 30, 2009, because of the net loss for the first nine months of 2009, an interim assessment was performed and resulted in the conclusion that goodwill was not impaired.

An impairment assessment is performed regularly 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 should be 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, and the expected future cash flows from the security. The Company concluded that there was one security with an other-than-temporary impairment of $565,000 at June 30, 2009. There were no additional other-than-temporary impairments recorded at September 30, 2009. 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.

NOTE 2 – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In December 2007, the FASB issued an accounting standard codification update related to business combinations which was effective on January 1, 2009. This accounting guidance changes the way acquisitions are accounted for in the following ways: (1) the measurement date for consideration transferred, including equity securities, is the date when control is obtained, generally the closing date; previously, equity securities issued in a business combination were measured at the combination's announcement date; (2) acquisition and restructuring costs are generally expensed as incurred rather than being considered part of the cost of the business combination; (3) contractual contingencies are measured on the closing date at fair value with adjustments to such fair value recorded in earnings when new information is obtained; and (4) contingent consideration is measured at its fair value on the closing date with subsequent adjustments based on changes in fair value. The Company adopted this accounting standards update effective January 1, 2009, and applied this new standard to the FDIC-assisted 1st Centennial Bank transaction.

In June 2008, the FASB issued accounting guidance related to determining whether instruments granted in share-based payment transactions are participating securities. This accounting standards update clarified that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities and are included in the two-class method of computing basic and diluted earnings per share. The Company adopted this accounting guidance update effective January 1, 2009 and this did not have a material impact on the Company's financial condition, operating results or earnings (loss) per share amounts and disclosures.

In April 2009, the FASB issued the following three accounting standards updates intended to provide additional guidance and enhance disclosures regarding fair value measurements and impairment of securities:

The first accounting standards update related to fair value measurements provides additional guidance for estimating fair value for an asset or liability when the volume and level of activity for the asset or liability have decreased significantly in relation to normal market activity. This accounting standard update also provides guidance on identifying circumstances that indicate a transaction was not orderly. The provisions of this accounting standards update were effective for the Company's interim period ended on June 30, 2009. The adoption of this accounting standards update did not have a material impact on the Company's results of operations, financial condition, or cash flows.

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The second accounting standards update related to fair value measurements requires disclosures about fair value of financial instruments in interim reporting periods of publicly traded companies that were previously only required to be disclosed in annual financial statements. The provisions of this accounting standards update were effective for the Company's interim period ended on June 30, 2009. These accounting standards updates related to fair value measurements amend only the disclosure requirements about fair value of financial instruments in interim periods. The adoption of this accounting standards update did not affect the Company's financial position or results of operations and only resulted in increased financial statement disclosures.

The third accounting standards update related to fair value measurements amends current other-than-temporary impairment guidance in generally accepted accounting principles for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This accounting standards update does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. However, it does change the presentation of other-than-temporary impairments in the financial statements. Under this accounting standards update, only credit-related losses will be realized through the income statement. Interest rate and other market-related losses will be recorded in other comprehensive income on the balance sheet and will not affect the cost basis of the security. The provisions of this accounting standards update was effective for the Company's interim period ended on June 30, 2009. The adoption of the provisions of this accounting standards update did not have a material effect on the Company's results of operations, financial condition, or cash flows because the Company had not previously incurred any other-than-temporary impairment charges. The adoption of this accounting standards update also increased financial statement disclosures.

NOTE 3 – ACQUISITION

On January 23, 2009, or the Transaction Date, the Bank assumed the insured, non-brokered deposits of 1st Centennial Bank from the FDIC, acting in its capacity as receiver of 1st Centennial Bank. Under the terms of the purchase and assumption agreement between the Bank and the FDIC, the Bank also purchased certain assets from the FDIC at the close of the transaction. The Bank paid cash consideration of $48.8 million to the FDIC for the assets acquired and liabilities assumed. The Bank continues to operate the former 1st Centennial Bank's six branch locations as part of the Bank's seventeen branch locations. The Company desired this transaction to enter into new markets and to assume a diversified deposit portfolio with a large percentage of stable core deposits.

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 nine months ended September 30, 2009 include the effects of the assumption of deposits and purchase of assets from the FDIC from the Transaction Date. The excess of the purchase price over the estimated fair values of the underlying assets acquired, the identified intangible assets, and liabilities assumed was allocated to goodwill. Thus, goodwill represents intangible assets that do not qualify for separate recognition.

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

(Dollars in thousands)	
Assets Acquired:	
Federal Funds sold	$113,090
Securities	88,969
Loans	101,217
Goodwill	10,606
Core deposit intangible	4,755

Other assets	1,365