

First California Financial Group, Inc.
Form 10-Q
August 15, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 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
(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

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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 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

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.

29,240,079 shares of Common Stock, \$0.01 par value, as of August 10, 2011

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

For the Quarterly Period Ended June 30, 2011

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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, except share and per share data)	June 30, 2011	December 31, 2010
Cash and due from banks	\$ 46,530	\$ 25,487
Interest bearing deposits with other banks	111,350	62,516
Securities available-for-sale, at fair value	316,496	272,439
Non-covered loans, net	900,601	930,712
Covered loans	172,621	53,870
Premises and equipment, net	18,628	19,710
Goodwill	60,720	60,720
Other intangibles, net	15,135	9,915
Deferred tax assets, net	—	4,563
Cash surrender value of life insurance	12,451	12,232
Non-covered foreclosed property	20,029	26,011
Covered foreclosed property	5,636	977
FDIC shared-loss asset	81,630	16,725
Accrued interest receivable and other assets	40,154	25,457
Total assets	\$ 1,801,981	\$ 1,521,334
Non-interest checking	\$ 429,528	\$ 331,648
Interest checking	98,695	88,638
Money market and savings	490,062	388,289
Certificates of deposit, under \$100,000	89,679	84,133
Certificates of deposit, \$100,000 and over	298,750	263,580
Total deposits	1,406,714	1,156,288
Securities sold under agreements to repurchase	30,000	45,000
Federal Home Loan Bank advances	97,626	86,500
Junior subordinated debentures	26,805	26,805
Deferred tax liabilities, net	11,353	—
FDIC shared-loss liability	3,643	988
Accrued interest payable and other liabilities	8,301	7,712
Total liabilities	1,584,442	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 June 30, 2011 and December 31, 2010	1,000	1,000
Series B - \$0.01 par value, 25,000 shares issued and outstanding as of June 30, 2011 and December 31, 2010	23,857	23,627
Common stock, \$0.01 par value; authorized 100,000,000 shares; 28,756,480 shares issued at June 30, 2011 and 28,517,161 shares issued at December 31, 2010;	288	282

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28,410,079 and 28,170,760 shares outstanding at June 30, 2011 and December 31, 2010		
Additional paid-in capital	175,329	175,102
Treasury stock, 346,401 shares at cost at June 30, 2011 and at December 31, 2010	(3,061)	(3,061)
Retained earnings	21,977	4,827
Accumulated other comprehensive loss	(1,851)	(3,736)
Total shareholders' equity	217,539	198,041
Total liabilities and shareholders' equity	\$ 1,801,981	\$ 1,521,334

See accompanying notes to consolidated financial statements.

FIRST CALIFORNIA FINANCIAL GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Operations (unaudited)

(in thousands, except per share data)	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Interest and fees on loans	\$ 17,236	\$ 12,819	\$ 32,368	\$ 25,806
Interest on securities	1,680	1,508	2,991	3,097
Interest on federal funds sold and interest bearing deposits	111	59	180	79
Total interest income	19,027	14,386	35,539	28,982
Interest on deposits	2,316	1,884	4,658	4,056
Interest on borrowings	877	1,257	1,937	2,569
Interest on junior subordinated debentures	334	439	665	878
Total interest expense	3,527	3,580	7,260	7,503
Net interest income before provision for loan losses	15,500	10,806	28,279	21,479
Provision for loan losses	500	1,766	3,000	3,520
Net interest income after provision for loan losses	15,000	9,040	25,279	17,959
Service charges on deposit accounts	858	814	1,755	1,599
Net gain on sale of securities	490	130	490	262
Impairment loss on securities	—	—	(1,066)	(18)
Gain on transfer of foreclosed property	—	691	—	691
Gain on acquisitions	466	—	35,202	—
Other income	1,376	319	1,718	613
Total noninterest income	3,190	1,954	38,099	3,147
Salaries and employee benefits	6,572	4,889	12,640	9,859
Premises and equipment	1,603	1,517	3,142	3,054
Data processing	814	597	1,875	1,192
Legal, audit and other professional services	1,568	590	3,228	772
Printing, stationery and supplies	112	113	208	125
Telephone	208	213	374	437
Directors' expense	100	113	206	233
Advertising, marketing and business development	428	286	797	513
Postage	65	47	121	103
Insurance and regulatory assessments	750	780	1,413	1,580
Loss on and expense of foreclosed property	486	468	5,738	546
Amortization of intangible assets	624	417	1,040	833
Other expenses	687	721	1,548	1,420
Total noninterest expense	14,017	10,751	32,330	20,667
Income before provision for income taxes	4,173	243	31,048	439
Provision for income taxes	1,756	96	13,043	175
Net income	2,417	147	18,005	264
Preferred stock dividends	(313)	(313)	(625)	(625)
Net income (loss) available to common shareholders	\$ 2,104	\$ (166)	\$ 17,380	\$ (361)
Earnings (loss) available to common shareholders per common share:				

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Basic	\$ 0.07	\$ (0.01)	\$0.61	\$(0.02)
Diluted	\$ 0.07	\$ (0.01)	\$0.61	\$(0.02)

See accompanying notes to consolidated financial statements.

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

(in thousands)	Six Months Ended June 30,	
	2011	2010
Net income	\$ 18,005	\$ 264
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	3,000	3,520
Stock-based compensation costs	232	348
Gain on acquisitions	(35,202)	—
Gain on sales of securities	(490)	(262)
(Gain) loss on sale and transfer of foreclosed property	5,283	(695)
Impairment loss on securities	1,066	18
Amortization of net premiums on securities available-for-sale	1,917	1,683
Depreciation and amortization of premises and equipment	1,017	938
Amortization of intangible assets	1,040	833
Change in FDIC shared-loss asset	(1,157)	—
(Gain) loss on disposal of premises and equipment	(150)	50
Increase in cash surrender value of life insurance	(219)	(221)
Decrease in deferred tax assets, net of acquisitions	1,446	2,235
Increase in accrued interest receivable and other assets, net of effects of acquisitions	(11,187)	(125)
Decrease in accrued interest payable and other liabilities, net of effects of acquisitions	(3,194)	(998)
Net cash (used) provided by operating activities	(18,593)	7,588
Purchases of securities available-for-sale, net of effects of acquisitions	(85,858)	(75,334)
Proceeds from repayments and maturities of securities available-for-sale	63,300	62,587
Proceeds from sales of securities available-for-sale	21,011	79,917
Purchases of Federal Home Loan Bank and other stock	—	(6)
Redemption of Federal Home Loan Bank stock	969	313
Net change in federal funds sold and interest bearing deposits, net of effects from acquisitions	13,256	(78,162)
Loan originations and principal collections, net of effects of acquisitions	46,343	17,814
Purchases of premises and equipment, net of effects of acquisitions	(1,228)	(375)
Proceeds from FDIC shared-loss asset	6,545	—
Proceeds from sale of premises and equipment	1,267	—
Proceeds from sale of non-covered foreclosed property	865	1,210
Proceeds from sale of covered foreclosed property	8,828	—
Net cash acquired in acquisitions	122,119	—
Net cash provided by investing activities	197,417	7,964
Net (decrease) increase in noninterest-bearing deposits, net of effects of acquisitions	(3,371)	23,494
Net decrease in interest-bearing deposits, net of effects of acquisitions	(103,370)	(55,752)
Net decrease in FHLB advances and other borrowings, net of effects of acquisitions	(50,415)	(14,724)
Dividends paid on preferred stock	(625)	(625)
Proceeds from issuance of common stock	—	38,916
Net cash used by financing activities	(157,781)	(8,691)

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Change in cash and due from banks	21,043	6,861
Cash and due from banks, beginning of period	25,487	26,757
Cash and due from banks, end of period	\$ 46,530	\$ 33,618
Supplemental cash flow information:		
Cash paid for interest	\$ 7,109	\$ 7,287
Cash paid for income taxes	\$ 4,570	\$ 1,000
Supplemental disclosure of noncash items:		
Net change in fair value of securities available-for-sale, net of tax	\$ 2,014	\$ 3,352
Net change in fair value of cash flow hedges, net of tax	\$ (129)	\$ (86)
Non-covered loans transferred to foreclosed property	\$ 229	\$ 24,398
Covered loans transferred to foreclosed property	\$ 2,752	\$ —
Acquisitions:		
Assets acquired	\$ 456,922	\$ —
Liabilities assumed	\$ 436,498	\$ —

See accompanying notes to 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 certain liabilities and acquired certain assets and substantially all of the operations of Western Commercial Bank, or WCB, located in Woodland Hills, California, from the FDIC. The Bank acquired, received and recognized certain assets with an estimated fair value of approximately \$109 million, including \$55 million of loans, \$32 million of cash, \$17 million of a FDIC shared-loss asset, \$2 million of securities and \$3 million of other assets. Liabilities with an estimated fair value of approximately \$107 million were also assumed and recognized, including \$105 million of deposits and \$2 million of other liabilities. The Bank 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. Based upon preliminary estimates of fair values assigned to acquired assets and liabilities as compared to the acquisition price, 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 fully integrated the former SLTB branch into its full-service branch network in June 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. The Electronic Payment Services Division, or the EPS division, its new name