

FIRST COMMUNITY BANCORP /CA/  
Form 10-Q  
August 06, 2007

# 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, 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: 00-30747

## FIRST COMMUNITY BANCORP

(Exact name of registrant as specified in its charter)

**CALIFORNIA**  
(State or other jurisdiction  
of incorporation or organization)  
**401 West A Street**  
**San Diego, California**  
(Address of principal executive offices)

**33-0885320**  
(I.R.S. Employer  
Identification Number)  
**92101**  
(Zip Code)

**(619) 233-5588**

(Registrant's telephone number, including area code)

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. See definition of Accelerated Filer and Large Accelerated Filer in Rule 12b-2 of the Exchange Act. (check one): 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 ☒

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As of August 1, 2007 there were 29,418,792 shares of the registrant's common stock outstanding, excluding 801,520 shares of unvested restricted stock.

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**PART I FINANCIAL INFORMATION****ITEM 1. Unaudited Condensed Consolidated Financial Statements****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

	<b>June 30, 2007</b>	<b>December 31, 2006</b>
	<b>(Dollars in thousands, except share data)</b>	
<b>Assets:</b>		
Cash and due from banks	\$ 132,727	\$ 128,910
Federal funds sold	9,900	22,000
Total cash and cash equivalents	142,627	150,910
Interest-bearing deposits in financial institutions	422	501
<b>Investments:</b>		
Federal Home Loan Bank stock, at cost	17,324	28,747
Securities available-for-sale (amortized cost of \$83,319 at June 30, 2007 and \$91,675 at December 31, 2006)	82,724	91,381
Total investments	100,048	120,128
Loans, held for sale	116,834	173,319
Loans, net of fees	3,841,617	4,189,543
Allowance for loan losses	(52,431 )	(52,908 )
Net loans	3,789,186	4,136,635
Premises and equipment, net	36,841	37,102
Accrued interest receivable	18,687	21,388
Goodwill	770,665	738,083
Core deposit and customer relationship intangibles	46,290	50,427
Cash surrender value of life insurance	69,046	67,512
Other assets	53,129	57,318
Total assets	\$ 5,143,775	\$ 5,553,323
<b>Liabilities and Shareholders' Equity:</b>		
<b>Deposits:</b>		
Noninterest-bearing	\$ 1,454,263	\$ 1,571,361
Interest-bearing	1,956,489	2,114,372
Total deposits	3,410,752	3,685,733
Accrued interest payable and other liabilities	66,542	51,043
<b>Borrowings</b>	302,684	499,000
Subordinated debentures	138,691	149,219
Total liabilities	3,918,669	4,384,995
<b>Shareholders' equity:</b>		
Preferred stock, no par value; Authorized 5,000,000 shares; none issued and outstanding		
Common stock, no par value; Authorized 50,000,000 shares; issued and outstanding 30,214,738 at June 30, 2007 and 29,635,957 at December 31, 2006 (includes 843,255 and 750,014 shares of unvested restricted stock, respectively)	1,044,941	1,020,132
Retained earnings	180,510	148,367
Accumulated other comprehensive loss unrealized losses on securities available-for-sale, net	(345 )	(171 )
Total shareholders' equity	1,225,106	1,168,328
Total liabilities and shareholders' equity	\$ 5,143,775	\$ 5,553,323

See Notes to Unaudited Condensed Consolidated Financial Statements.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

	Quarter Ended June 30, 2007		Six Months Ended June 30, 2007	
	2006		2006	
	(In thousands, except per share data)			
Interest income:				
Interest and fees on loans	\$ 84,277	\$ 68,330	\$ 175,226	\$ 128,279
Interest on federal funds sold	909	66	1,123	130
Interest on deposits in financial institutions	6	5	12	20
Interest on investment securities	1,362	2,588	2,738	4,754
Total interest income	86,554	70,989	179,099	133,183
Interest expense:				
Deposits	13,731	7,136	27,156	12,765
Borrowings	3,414	3,118	10,166	5,281
Subordinated debentures	2,955	2,697	5,888	5,147
Total interest expense	20,100	12,951	43,210	23,193
Net interest income	66,454	58,038	135,889	109,990
Provision for credit losses		9,500		9,600
Net interest income after provision for credit losses	66,454	48,538	135,889	100,390
Noninterest income:				
Service charges and fees on deposit accounts	2,850	1,986	5,667	3,545
Other commissions and fees	1,976	1,596	3,299	3,078
Gain on sale of loans, net	1,779		9,304	
Increase in cash surrender value of life insurance	627	531	1,243	952
Other income	297	178	2,367	349
Total noninterest income	7,529	4,291	21,880	7,924
Noninterest expense:				
Compensation	18,267	14,865	37,189	30,095
Occupancy	4,725	3,905	9,486	7,050
Furniture and equipment	1,195	981	2,488	1,742
Data processing	1,467	1,719	3,025	3,054
Other professional services	1,795	1,016	3,232	2,136
Business development	849	353	1,556	700
Communications	841	749	1,673	1,375
Insurance and assessments	378	492	791	964
Intangible asset amortization	2,305	1,577	4,479	2,726
Reorganization charges	1,083	407	1,341	407
Other	3,092	2,380	6,130	4,366
Total noninterest expense	35,997	28,444	71,390	54,615
Earnings before income taxes and effect of accounting change	37,986	24,385	86,379	53,699
Income taxes	15,461	9,934	35,308	21,987
Net earnings before cumulative effect of accounting change	22,525	14,451	51,071	31,712
Cumulative effect on prior years (to December 31, 2005) of changing the method of accounting for stock-based compensation forfeitures				142
Net earnings	\$ 22,525	\$ 14,451	\$ 51,071	\$ 31,854
Outstanding shares:				
Number of shares (weighted average):				
Basic	28,885.9	22,509.2	28,876.6	20,952.2
Diluted	29,015.8	22,736.9	29,007.4	21,208.5
Basic earnings per share:				
Net earnings before accounting change	\$ 0.78	\$ 0.64	\$ 1.77	\$ 1.51
Accounting change				0.01
Basic earnings per share	\$ 0.78	\$ 0.64	\$ 1.77	\$ 1.52
Diluted earnings per share:				
Net earnings before accounting change	\$ 0.78	\$ 0.64	\$ 1.76	\$ 1.50
Accounting change(1)				
Diluted earnings per share	\$ 0.78	\$ 0.64	\$ 1.76	\$ 1.50
Dividends declared per share	\$ 0.32	\$ 0.32	\$ 0.64	\$ 0.57

(1) Less than \$0.01 per diluted share for the six months ended June 30, 2006.

See Notes to Unaudited Condensed Consolidated Financial Statements.



UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Quarter Ended June 30, 2007		Six Months Ended June 30, 2007	
	2006		2006	
	(Dollars in thousands)			
Net earnings	\$ 22,525	\$ 14,451	\$ 51,071	\$ 31,854
Other comprehensive income, net of related income taxes:				
Unrealized holding losses on securities arising during the period	(343 )	(106 )	(174 )	(371 )
Comprehensive income	\$ 22,182	\$ 14,345	\$ 50,897	\$ 31,483

See Notes to Unaudited Condensed Consolidated Financial Statements.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30, 2007		2006
	(Dollars in thousands)		
Cash flows from operating activities:			
Net earnings	\$	51,071	\$ 31,854
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization		7,206	5,185
Provision for credit losses			9,600
Gain on sale of loans		(9,304)	)
Proceeds from sale of loans held for sale		78,350	
Originations of and principal advanced on loans held for sale		(13,430)	)
Gain on sale of premises and equipment		(26)	(6)
Restricted stock amortization		4,582	3,236
Excess tax benefit from stock option exercises and restricted stock vesting		(1,951)	(4,578)
Decrease in accrued and deferred income taxes, net		10,333	7,974
Decrease in other assets		824	2,767
Increase (decrease) in accrued interest payable and other liabilities		7,654	(17,423)
Dividends on FHLB stock		(746)	(323)
Net cash provided by operating activities		134,563	38,286
Cash flows from investing activities:			
Net cash and cash equivalents paid in acquisitions		(1,566)	(24,710)
Net decrease (increase) in loans		77,102	(73,506)
Proceeds from sale of loans		355,239	4,859
Net decrease in deposits in financial institutions		79	1,698
Collections on sales of acquired securities			32,050
Maturities and repayments of investment securities		29,412	31,892
Purchases of investment securities		(20,877)	(1,851)
Net redemptions (purchases) of FRB and FHLB stock		12,185	(7,533)
Purchases of premises and equipment, net		(2,929)	(3,683)
Proceeds from sale of other real estate owned		479	37
Proceeds from sale of premises and equipment		110	6
Net cash provided by (used in) investing activities		449,234	(40,741)
Cash flows from financing activities:			
Net decrease in noninterest-bearing deposits		(117,098)	(43,528)
Net decrease in interest-bearing deposits		(157,883)	(178,319)
Redemption of subordinated debentures		(10,310)	)
Proceeds from issuance of common stock			109,456
Repurchase of common stock		(9,521)	)
Net proceeds from exercise of stock options and vesting of restricted stock		109	6,302
Tax benefit of stock option exercises and restricted and performance stock vesting		1,951	4,578
Net (decrease) increase in borrowings		(196,700)	163,800
Repayment of acquired debt		(83,700)	)
Cash dividends paid		(18,928)	(12,700)
Net cash (used in) provided by financing activities		(592,080)	49,589
Net (decrease) increase in cash and cash equivalents		(8,283)	47,134
Cash and cash equivalents at beginning of period		150,910	105,262
Cash and cash equivalents at end of period	\$	142,627	\$ 152,396
Supplemental disclosure of cash flow information:			
Cash paid during period for interest	\$	43,110	\$ 21,707
Cash paid during period for income taxes		25,073	14,061
Transfer of loans to other real estate owned		98	
Transfer from loans held for sale to loans		24,944	
Transfer from loans to loans held for sale		379,692	4,888

See Notes to Unaudited Condensed Consolidated Financial Statements.



## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	Common Stock Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
(Dollars in thousands, except share data)					
Balance at December 31, 2006	29,635,957	\$ 1,020,132	\$ 148,367	\$ (171 )	\$ 1,168,328
Net earnings			51,071		51,071
Exercise of stock options	87,090	1,508			1,508
Shares issued in acquisitions	494,606	27,688			27,688
Shares purchased and retired	(177,600 )	(9,521 )			(9,521 )
Tax benefits from exercise of options and vesting of restricted stock		1,951			1,951
Restricted stock awarded and earned stock compensation, net of shares forfeited	200,134	4,582			4,582
Restricted stock surrendered	(25,449 )	(1,399 )			(1,399 )
Cash dividends paid (\$0.64 per share)			(18,928 )		(18,928 )
Other comprehensive income net unrealized loss on securities available-for-sale, net of tax effect of \$126 thousand				(174 )	(174 )
Balance at June 30, 2007	30,214,738	\$ 1,044,941	\$ 180,510	\$ (345 )	\$ 1,225,106

See Notes to Unaudited Condensed Consolidated Financial Statements.

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**NOTE 1 BASIS OF PRESENTATION**

We are a bank holding company registered under the Bank Holding Company Act of 1956, as amended. Our principal business is to serve as a holding company for our banking subsidiary. As of June 30, 2007, our sole banking subsidiary was Pacific Western Bank, which we refer to as Pacific Western or the Bank. When we say we, our or the Company, we mean the Company on a consolidated basis with the Bank. When we refer to First Community or to the holding company, we are referring to the parent company on a stand-alone basis.

We have completed 19 acquisitions since May 2000 including the merger whereby the former Rancho Santa Fe National Bank and First Community Bank of the Desert became wholly-owned subsidiaries of the Company in a pooling-of-interests transaction. All other acquisitions have been accounted for using the purchase method of accounting and, accordingly, their operating results have been included in the consolidated financial statements from their respective dates of acquisition. Please see Notes 2 and 3 for more information about our acquisitions.

**(a) Basis of Presentation**

The accounting and reporting policies of the Company are in accordance with U.S. generally accepted accounting principles. All significant intercompany balances and transactions have been eliminated.

Our financial statements reflect all adjustments that are, in the opinion of management, necessary to present a fair statement of the results for the interim periods presented. Certain information and note disclosures normally included in consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The interim operating results are not necessarily indicative of operating results for the full year.

**(b) Use of Estimates**

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period to prepare these consolidated financial statements in conformity with U.S. generally accepted accounting principles. Actual results could differ from those estimates. Material estimates subject to change in the near term include, among other items, the allowance for credit losses, the carrying values of intangible assets and the realization of deferred tax assets.

**(c) Reclassifications**

Certain prior period amounts have been reclassified to conform to the current year's presentation.

**NOTE 2 ACQUISITIONS**

During 2007 and 2006 we completed the following four acquisitions using the purchase method of accounting, and accordingly, the operating results of the acquired entities have been included in the consolidated financial statements from their respective dates of acquisition. The allocation of the purchase price of Business Finance Capital Corporation, which we refer to as the BFI acquisition, is preliminary and subject to change.

<b>Acquisition Date Acquired</b>	<b>Cedars Bank January 2006 (Dollars in thousands)</b>	<b>Foothill Independent Bancorp May 2006</b>	<b>Community Bancorp October 2006</b>	<b>BFI Business Finance June 2007</b>
<b>Assets acquired:</b>				
Cash and cash equivalents	\$ 34,474	\$ 60,844	\$ 24,521	\$ 4,331
Interest-bearing deposits in other banks	1,796	99	1,019	
Investment securities	3,355	50,406	11,498	
Loans, net	355,167	535,975	598,739	84,499
Loans held for sale			127,449	
Premises and equipment	1,234	6,838	7,371	80
Goodwill	71,182	165,899	206,176	31,636
Core deposit and customer relationship intangible assets	2,992	17,311	9,514	
Other assets	19,075	54,618	21,369	2,293
	489,275	891,990	1,007,656	122,839
<b>Liabilities assumed:</b>				
Non-interest bearing deposits	(92,216 )	(265,369 )	(167,939 )	
Interest bearing deposits	(269,189 )	(369,216 )	(489,931 )	
Accrued interest payable and other liabilities	(7,870 )	(16,697 )	(14,167 )	(5,171 )
Borrowings			(33,195 )	(84,084 )
Subordinated debt		(8,481 )	(39,829 )	
Total liabilities assumed	(369,275 )	(659,763 )	(745,061 )	(89,255 )
Total consideration paid by First Community	\$ 120,000	\$ 232,227	\$ 262,595	\$ 33,584
<b>Deal value:</b>				
Cash paid by First Community for either common stock, common stock options, or preferred stock of acquired company	\$ 120,000	\$ 30	\$ 27	\$ 5,897
Fair value of common stock issued		232,197	262,568	27,688
Total consideration paid by First Community	120,000	232,227	262,595	33,585
Cash paid for stock options by acquired company		10,232	6,089	1,415
Total deal value	\$ 120,000	\$ 242,459	\$ 268,684	\$ 35,000

*Cedars Bank*

On January 4, 2006, we acquired Cedars Bank, or Cedars, based in Los Angeles, California. We paid approximately \$120.0 million in cash for all of the outstanding shares of common stock and options of Cedars. At the time of the merger, Cedars was merged into Pacific Western. We made this acquisition to expand our presence in Los Angeles, California. In January 2006, we issued 1,891,086 shares of common stock for net proceeds of \$109.5 million. We used these proceeds to augment our regulatory capital in support of the Cedars acquisition.

**NOTE 2 ACQUISITIONS (Continued)**

*Foothill Independent Bancorp*

On May 9, 2006, we acquired Foothill Independent Bancorp, or Foothill, based in Glendora, California. We issued approximately 3,947,000 shares of our common stock to the Foothill shareholders and caused Foothill to pay \$10.2 million in cash for all outstanding options to purchase Foothill common stock. The aggregate deal value was approximately \$242.5 million. At the time of the acquisition, Foothill was merged with and into the Company and Foothill's wholly-owned subsidiary, Foothill Independent Bank, was merged with and into Pacific Western. We made this acquisition to expand our presence in Los Angeles, Riverside and San Bernardino Counties of California.

*Community Bancorp Inc.*

On October 26, 2006, we acquired Community Bancorp Inc., or Community Bancorp, based in Escondido, California. We issued 4,677,908 shares of our common stock to the Community Bancorp shareholders and caused Community Bancorp to pay \$6.1 million in cash for all outstanding options to purchase Community Bancorp common stock. At the time of the acquisition, Community Bancorp was merged with and into the Company and Community National Bank, a wholly-owned subsidiary of Community Bancorp, was merged with and into Pacific Western. We made this acquisition to expand our presence in the San Diego and Riverside Counties of California.

*BFI Business Finance.*

On June 25, 2007 we acquired Business Finance Capital Corporation, or BFCC, a commercial finance company based in San Jose, California, and parent company to BFI Business Finance, or BFI. We issued 494,606 shares of our common stock to the BFCC common shareholders, paid \$5.9 million in cash to preferred shareholders of BFCC and caused BFCC to pay \$1.4 million in cash for all outstanding options to purchase BFCC common stock. The aggregate deal value was approximately \$35.0 million. BFI is an asset-based lender with 34 employees and approximately \$87 million in loans as of the acquisition date. BFI lends primarily to growing business throughout California and the northwestern United States. At the time of the acquisition, BFCC was merged out of existence and BFI became a subsidiary of Pacific Western. BFI will continue to operate under its current name. We made this acquisition, which we refer to as the BFI acquisition, to expand our asset-based lending business and further diversify our loan portfolio.

*Merger Related Liabilities.*

All of the acquisitions consummated after December 31, 2000 were completed using the purchase method of accounting. Accordingly, we recorded the estimated merger-related charges associated with each acquisition as a liability at closing when allocating the related purchase price.

For each acquisition, we developed an integration plan for the Company that addressed, among other things, requirements for staffing, systems platforms, branch locations and other facilities. The established plans are evaluated regularly during the integration process and modified as required. Merger and integration expenses are summarized in the following primary categories: (i) severance and employee-related charges; (ii) system conversion and integration costs, including contract termination charges; (iii) asset write-downs, lease termination costs for abandoned space and other facilities-related costs; and (iv) other charges. Other charges include investment banking fees, legal fees, other professional fees relating to due diligence activities and shareholder expenses associated with preparation of securities filings, as appropriate. These costs were included in the allocation of the purchase price at the acquisition date based on our formal integration plans.

**NOTE 2 ACQUISITIONS (Continued)**

The following table presents the activity in the merger-related liability account for the six months ended June 30, 2007:

	Severance and Employee- related (Dollars in thousands)	System Conversion and Integration	Asset Write- downs, Lease Terminations and Other Facilities- related	Other	Total
Balance at December 31, 2006	\$ 111	\$ 135	\$ 2,518	\$ 1,285	\$ 4,049
Additions related to acquisitions				1,372	1,372
Non-cash write-downs and other		66		(66)	
Reversals				(150)	(150)
Cash outlays	(27)	(201)	(604)	(1,099)	(1,931)
Balance at June 30, 2007	\$ 84	\$	\$ 1,914	\$ 1,342	\$ 3,340

*Unaudited Pro Forma Information for Purchase Acquisitions*

The following table presents our unaudited pro forma results of operations for the quarter and six month ended June 30, 2006 as if the Cedars, Foothill, and Community Bancorp acquisitions had been completed at the beginning of 2006. The unaudited pro forma results of operations include: (1) the historical accounts of the Company, Cedars, Foothill, and Community Bancorp; and (2) pro forma adjustments, as may be required, including the amortization of intangibles with definite lives and the amortization or accretion of any premiums or discounts arising from fair value adjustments for assets acquired and liabilities assumed. The unaudited pro forma information is intended for informational purposes only and is not necessarily indicative of our future operating results or operating results that would have occurred had these acquisitions been completed at the beginning of 2006. No assumptions have been applied to the pro forma results of operations regarding possible revenue enhancements, expense efficiencies or asset dispositions. As the BFI acquisition is immaterial, pro forma amounts related to that acquisition are not presented.

	Quarter Ended June 30, 2006 (Dollar in thousands, except per share data)	Six Months Ended June 30, 2006
Revenues (net interest income plus noninterest income)	\$ 80,029	\$ 161,037
Net earnings	\$ 17,791	\$ 40,500
Net income per share:		
Basic	\$ 0.62	\$ 1.42
Diluted	\$ 0.61	\$ 1.40

**NOTE 3 GOODWILL AND OTHER INTANGIBLE ASSETS**

Goodwill and intangible assets arise from purchase business combinations. Goodwill and other intangible assets deemed to have indefinite lives generated from purchase business combinations are not subject to amortization and are instead tested for impairment no less than annually. Our annual impairment tests of goodwill have resulted in no impact on our results of operations and financial condition.

**NOTE 3 GOODWILL AND OTHER INTANGIBLE ASSETS (Continued)**

The goodwill recorded has been assigned to our one reporting segment, banking, and none of the goodwill is deductible for income tax purposes. The following table presents the changes in goodwill for the six months ended June 30, 2007:

	<b>Six Months Ended June 30, 2007 (Dollars in thousands)</b>
Balance as of January 1, 2007	\$ 738,083
Additions	31,636
Adjustments related to 2006 acquisitions	946
Balance as of June 30, 2007	\$ 770,665

Intangible assets with definite lives are amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment annually. The amortization expense represents the estimated decline in the value of the underlying deposits or loan customers acquired. The estimated aggregate amortization expense related to the intangible assets is expected to be \$9.0 million for 2007. It is also estimated to range from \$5.1 million to \$8.0 million for each of the next five years and is expected to total \$32.6 million over this time horizon. All of these estimates exclude the effect of amortization expense arising from identifying any intangible assets with definite lives from the BFI acquisition.

The following table presents the changes in the gross amounts of core deposit and customer relationship intangibles and the related accumulated amortization for the six months ended June 30, 2007 and 2006. As the purchase price allocation for BFI is not yet complete, the amount applicable to BFI's customer relationship intangible asset is not included in the table.

	<b>Six Months Ended June 30, 2007</b>	<b>2006 (Dollars in thousands)</b>
<b>Gross amount:</b>		
Balance as of January 1,	\$ 67,773	\$ 37,956
Additions	342	20,302
Balance as of June 30,	68,115	58,258
<b>Accumulated amortization:</b>		
Balance as of January 1,	(17,346 )	(10,658 )
Amortization	(4,479 )	(2,726 )
Balance as of June 30,	(21,825 )	(13,384 )
Net balance as of June 30,	\$ 46,290	\$ 44,874

**NOTE 4 INVESTMENT SECURITIES**

The amortized cost, gross unrealized gains and losses and fair value of securities available-for-sale as of June 30, 2007 are as follows:

	<b>June 30, 2007</b>			
	<b>Amortized cost (Dollars in thousands)</b>	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	<b>Fair value</b>
U.S. Treasury securities	\$ 998	\$	\$ 1	\$ 997
Government-sponsored entity securities	40,007	30	67	39,970
Municipal securities	7,600	24	62	7,562
Mortgage-backed and other securities	34,714	52	571	34,195
<b>Total</b>	<b>\$ 83,319</b>	<b>\$ 106</b>	<b>\$ 701</b>	<b>\$ 82,724</b>

The contractual maturity distribution based on amortized cost and fair value as of June 30, 2007, is shown below. Mortgage-backed securities have contractual terms to maturity, but require periodic payments to reduce principal. In addition, expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<b>Maturity distribution as of June 30, 2007</b>	
	<b>Amortized cost (Dollars in thousands)</b>	<b>Fair value</b>
Due in one year or less	\$ 25,708	\$ 25,665
Due after one year through five years	21,611	21,605
Due after five years through ten years	7,638	7,589
Due after ten years	28,362	27,865
<b>Total</b>	<b>\$ 83,319</b>	<b>\$ 82,724</b>

The following table presents the fair value and unrealized losses on securities that were temporarily impaired as of June 30, 2007:

<b>Descriptions of securities</b>	<b>Impairment Period Less than 12 months</b>		<b>12 months or longer</b>		<b>Total</b>	
	<b>Fair Value (Dollars in thousands)</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
U.S. Treasury securities	\$	\$	\$ 997	\$ 1	\$ 997	\$ 1
Government-sponsored entity securities	15,910	26	14,800	41	30,710	67
Municipal securities	4,239	28	935	34	5,174	62
Mortgage-backed and other securities	15,883	213	8,675	358	24,558	571
<b>Total temporarily impaired securities</b>	<b>\$ 36,032</b>	<b>\$ 267</b>	<b>\$ 25,407</b>	<b>\$ 434</b>	<b>\$ 61,439</b>	<b>\$ 701</b>

All individual securities that have been in a continuous unrealized loss position for 12 months or longer at June 30, 2007 were securities that have been issued by the U.S. Treasury or municipalities and government-sponsored entities which have a AAA credit rating as determined by various rating agencies. These securities have fluctuated in value since their purchase dates because of changes in market interest rates. We concluded that the continuous unrealized loss position for the past 12 months on our securities is

**NOTE 4 INVESTMENT SECURITIES (Continued)**

a result of the level of market interest rates and not a result of the underlying issuers' ability to repay and are, therefore, temporarily impaired. In addition, we have the intent and ability to hold these securities until their fair value recovers to their cost. Accordingly, we have not recognized the temporary impairment in our consolidated statement of earnings.

**NOTE 5 NET EARNINGS PER SHARE**

The following is a summary of the calculation of basic and diluted net earnings per share for the quarter and six months ended June 30, 2007 and 2006:

	Quarter Ended June 30, 2007		Six Months Ended June 30, 2007	
	2007	2006	2007	2006
(In thousands, except per share data)				
Net earnings before cumulative effect of accounting change	\$ 22,525	\$ 14,451	\$ 51,071	\$ 31,712
Accounting change				142
Net earnings	\$ 22,525	\$ 14,451	\$ 51,071	\$ 31,854
Weighted average shares outstanding used for basic net earnings per share	28,885.9	22,509.2	28,876.6	20,952.2
Effect of restricted stock and dilutive stock options	129.9	227.7	130.8	256.3
Diluted weighted average shares outstanding	29,015.8	22,736.9	29,007.4	21,208.5
Basic earnings per share:				
Net earnings before accounting change	\$ 0.78	\$ 0.64	\$ 1.77	\$ 1.51
Accounting change				0.01
Basic earnings per share	\$ 0.78	\$ 0.64	\$ 1.77	\$ 1.52
Diluted earnings per share:				
Net earnings before accounting change	\$ 0.78	\$ 0.64	\$ 1.76	\$ 1.50
Accounting change(1)				
Diluted earnings per share	\$ 0.78	\$ 0.64	\$ 1.76	\$ 1.50

(1) Less than \$0.01 per diluted share for the six months ended June 30, 2006.

In calculating the common stock equivalents for purposes of diluted earnings per share, we selected the transition method provided by FASB Staff Position FAS123(R)-3, *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards*. Diluted earnings per share do not include all potentially dilutive shares that may result from outstanding stock options and restricted stock awards that may eventually vest. The number of common shares underlying stock options and shares of restricted stock which were outstanding but not included in the calculation of diluted net earnings per share were 761,627 and 637,900 for the quarters ended June 30, 2007 and 2006 and 760,735 and 609,313 for the six months ended June 30, 2007 and 2006.

**NOTE 6 STOCK COMPENSATION***Accounting Change*

We adopted SFAS No. 123 (revised 2004), *Share Based Payment* ( SFAS 123R ) on January 1, 2006. SFAS 123R applies to all stock-based compensation transactions in which an entity acquires employee or director services by either issuing stock or other equity instruments, such as stock options, restricted and performance stock, and/or stock appreciation rights, or incurring liabilities that are based on an entity's



**NOTE 6 STOCK COMPENSATION (Continued)**

stock price, and requires entities that engage in these transactions to recognize compensation expense based on the fair value of the stock or other equity instrument either issued, modified, or settled. We adopted SFAS 123R using the modified prospective approach. Under this approach, compensation expense is recognized for (1) new share-based payment awards (e.g., stock options and restricted stock), (2) awards that are modified, repurchased, or cancelled after December 31, 2005, and (3) the remaining portion of the requisite service under previously granted unvested stock awards as of December 31, 2005.

As permitted under formerly effective accounting rules, we did not consider estimated forfeitures of stock awards during the amortization period and recognized the effect of forfeitures as they occurred. As required by SFAS 123R we recognized the cumulative effect of estimated forfeitures for unvested restricted stock awards as of December 31, 2005, by increasing our first quarter 2006 earnings by \$242,000. The after tax effect of this adjustment was to increase net earnings by \$142,000, or less than \$0.01 per diluted share. SFAS 123R also requires us to use estimated forfeitures in recognizing stock compensation expense beginning January 1, 2006, and to true-up such expense when forfeitures occur. Amortization expense for all restricted stock awards is estimated to be \$8.6 million for 2007 and includes an estimate for forfeitures. As of June 30, 2007, unrecognized stock-based compensation expense was \$36.2 million. When we made restricted stock awards prior to January 1, 2006, we established an unearned equity compensation contra account within our shareholders' equity equal to the market value of our common stock underlying the award on the award date. SFAS 123R required us to eliminate the unearned equity compensation account on January 1, 2006, by reclassifying it to common stock. Such reclassification had no effect on the amount of the Company's shareholders' equity.

*Time-based and Performance-based Restricted Stock.*

At June 30, 2007, there were outstanding 323,255 shares of unvested time-based restricted common stock and 520,000 shares of unvested performance-based restricted common stock. The awarded shares of time-based restricted common stock vest over a service period of three to four years from the date of grant. The awarded shares of performance-based restricted common stock vest in full on the date the Compensation, Nominating and Governance (CNG) Committee of the Board of Directors, as Administrator of the Company's 2003 Stock Incentive Plan (the Plan), determines that the Company achieved certain financial goals established by the CNG Committee and set forth in the grant documents. The 315,000 shares of unvested performance-based restricted stock awarded in 2006 expire in 2013 and are currently expected to vest in the first quarter of 2013. The 205,000 shares of unvested performance-based restricted stock awarded in 2007 expire in 2017 and are currently expected to vest in the first quarter of 2017. Performance-based restricted stock is forfeited if financial goals are not met during their term. All restricted common stock vests immediately upon a change in control of the Company as defined in the Plan. Restricted stock amortization totaled \$2.4 million and \$1.9 million for the quarters ended June 30, 2007 and 2006, and \$4.6 million and \$3.2 million for the six months ended June 30, 2007 and 2006.

The Plan permits stock-based compensation awards to officers, directors, key employees and consultants. The Plan authorizes grants of stock-based compensation instruments to purchase or issue up to 3,500,000 shares of authorized but unissued Company common stock, subject to adjustments provided by the Plan. As of August 1, 2007, there were 716,062 shares available for grant under the Plan.

## NOTE 7 BORROWINGS AND SUBORDINATED DEBENTURES

### *Borrowings.*

At June 30, 2007, we had \$302.7 million of borrowings outstanding composed of \$384,000 of borrowings acquired in the BFI acquisition and \$302.3 million of borrowings from the Federal Home Loan Bank of San Francisco (the FHLB) with an aggregate weighted average cost of 4.96%. The FHLB secured advances include overnight borrowings of \$57.3 million and term advances of \$245.0 million, of which \$45.0 million will mature in December 2008. The weighted average cost of the FHLB term advances is 4.85%. The remaining \$200 million is composed of two \$100 million fixed-rate two year term advances, each with an option to be called by the FHLB on the first year anniversary dates of November and December 2007. If market interest rates are higher than the advances' stated rates at that time, the advances will be called by the FHLB and the Bank will be required to repay the FHLB. If market interest rates are lower at their one year anniversary date, then the advances will not be called by the FHLB. If the advances are not called by the FHLB they will mature in November and December 2008. We may repay the advances with a prepayment penalty at any time. If the advances are called by the FHLB, there is no prepayment penalty. Our aggregate remaining secured borrowing capacity from the FHLB was \$705.8 million at June 30, 2007. Additionally, the Bank maintains unsecured lines of credit in the aggregate of \$120.0 million with three correspondent banks for the purchase of overnight funds. These lines are subject to availability of funds.

The Company has a revolving credit line with U.S. Bank, N.A. for \$70.0 million. On August 2, 2007 we extended the maturity date of the credit line from August 2, 2007 to August 31, 2007. We expect to renew this line of credit for a one year period. This line is secured by a pledge of all of the outstanding capital stock of Pacific Western. The credit agreement requires the Company to maintain certain financial and capital ratios, among other covenants and conditions. Such covenants include minimum net worth ratios, maximum debt ratios, a minimum return on average assets, minimum and maximum credit quality ratios, and dividend payment limitations. As of June 30, 2007, we, and where applicable, Pacific Western, were in compliance with all covenants covering the agreement. We pay a quarterly fee of 25 basis points on the unused amounts. There were no amounts outstanding under the revolving credit line at June 30, 2007.

### *Subordinated Debentures.*

The Company had an aggregate of \$138.7 million subordinated debentures outstanding at June 30, 2007. During the second quarter of 2007 we redeemed for cash \$10.3 million of subordinated debentures. The remaining subordinated debentures were issued in eight separate series. Each issuance has a maturity of thirty years from its date of issue. The subordinated debentures were issued to trusts established by us or entities we have acquired, which in turn issued trust preferred securities, which totaled \$131.0 million at June 30, 2007. These trust preferred securities are presently considered Tier 1 capital for regulatory purposes. With the exception of Trust I and Trust CI, the subordinated debentures are callable at par, only by the issuer, five years from the date of issuance, subject to certain exceptions. We are permitted to call the debentures in the first five years if the prepayment election relates to one of the following three events: (i) a change in the tax treatment of the debentures stemming from a change in the IRS laws; (ii) a change in the regulatory treatment of the underlying trust preferred securities as Tier 1 capital; and (iii) a requirement to register the underlying trust as a registered investment company. Trust I and Trust CI may not be called for 10 years from the date of issuance unless one of the three events described above has occurred and then a prepayment penalty applies. In addition, there is a prepayment penalty if either of these debentures is called 10 to 20 years from the date of their issuance and they may be called at par after 20 years. The proceeds of the subordinated debentures were used primarily to fund several of our

**NOTE 7 BORROWINGS AND SUBORDINATED DEBENTURES (Continued)**

acquisitions and to augment regulatory capital. The following table summarizes the terms of each issuance of the subordinated debentures outstanding June 30, 2007:

Series	Date issued	Amount	Maturity	Earliest Call Date without Penalty(1)	Fixed or Variable Rate	Rate Index	Current Rate(2)	Next Reset Date
(Dollars in thousands)								
Trust CI(4)	3/23/2000	\$ 10,310	3/8/2030	3/8/2020	Fixed	N/A	11.00 %	N/A
Trust I	9/7/2000	8,248	9/7/2030	9/7/2020	Fixed	N/A	10.60 %	N/A
Trust F(3)	12/19/2002	8,248	12/26/2032	12/19/2007	Variable	3-month LIBOR +3.25	8.61 %	9/24/2007
Trust V	8/15/2003	10,310	9/17/2033	9/17/2008	Variable	3-month LIBOR +3.10	8.46 %	9/13/2007
Trust VI	9/3/2003	10,310	9/15/2033	9/15/2008	Variable	3-month LIBOR +3.05	8.41 %	9/13/2007
Trust CII(4)	9/17/2003	5,155	9/17/2033	9/17/2009	Variable	3-month LIBOR +2.95	8.31 %	9/13/2007
Trust VII	2/5/2004	61,856	4/23/2034	4/23/2009	Variable	3-month LIBOR +2.75	8.11 %	9/26/2007
Trust CIII(4)	8/15/2005	20,619	9/15/2035	9/15/2010	Fixed	(5) N/A	5.85 %	9/15/2010
Unamortized premium(6)		3,635						
Total		\$ 138,691						

(1) As described above, certain issuances may be called earlier without penalty upon the occurrence of certain events.

(2) As of July 26, 2007; excludes debt issuance costs.

(3) Acquired in the Foothill acquisition.

(4) Acquired in the Community Bancorp acquisition.

(5) Interest rate is fixed until 9/15/2010 and then is variable at a rate of 3-month LIBOR + 1.69%.

(6) This amount represents the fair value adjustment to the four trusts that we acquired during 2006.

As previously mentioned, the subordinated debentures were issued to trusts established by us, or entities we acquired, which in turn issued \$131.0 million of trust preferred securities. These securities are currently included in our Tier I capital for purposes of determining the Company's Tier I and total risk-based capital ratios. The Board of Governors of the Federal Reserve System, which is the holding company's banking regulator, has promulgated a modification of the capital regulations affecting trust preferred securities. Under this modification, beginning March 31, 2009, the Company will be required to use a more restrictive formula to determine the amount of trust preferred securities that can be included in regulatory Tier I capital. At that time, the Company will be allowed to include in Tier I capital an amount of trust preferred securities equal to no more than 25% of the sum of all core capital elements, which is generally defined as shareholders' equity less certain intangibles, including goodwill, core deposit intangibles and customer relationship intangibles, net of any related deferred income tax liability. The regulations currently in effect through December 31, 2008, limit the amount of trust preferred securities that can be included in Tier I capital to 25% of the sum of core capital elements without a deduction for permitted intangibles. We have determined that our Tier I capital ratios would remain above the well-capitalized level had the modification of the capital regulations been in effect at June 30, 2007. We expect that our Tier I capital ratios will be at or above the existing well-capitalized levels on March 31, 2009, the first date on which the modified capital regulations must be applied.

**NOTE 8 COMMITMENTS AND CONTINGENCES**

*Lending Commitments.*

Pacific Western is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of their customers. Such financial instruments include commitments to extend credit, standby letters of credit and financial guarantees. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets. The contract or notional amounts of such instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

**NOTE 8 COMMITMENTS AND CONTINGENCES (Continued)**

Commitments to extend credit amounting to \$1.2 billion were outstanding at both June 30, 2007 and December 31, 2006. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since most commitments are never fully drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Standby letters of credit and financial guarantees amounting to \$75.7 million and \$67.9 million were outstanding as of June 30, 2007 and December 31, 2006. Standby letters of credit and financial guarantees are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. Most guarantees expire within one year from the date of issuance. The Company generally requires collateral or other security to support financial instruments with credit risk. Management does not anticipate that any material loss will result from the outstanding commitments to extend credit, standby letters of credit or financial guarantees.

The Company has investments in several small business investment companies and in low income housing project partnerships which provide the Company income tax credits. As of June 30, 2007 the Company had commitments to contribute capital to these entities totaling \$933,000.

*Legal Matters.*

On June 8, 2004, the Company was served with an amended complaint naming First Community and Pacific Western as defendants in a class action lawsuit filed in Los Angeles Superior Court pending as Gilbert et. al v. Cohn et al, Case No. BC310846 (the "Gilbert Litigation"). A former officer of First Charter Bank, N.A. ("First Charter"), which the Company acquired in October 2001, was also named as a defendant. That former officer left First Charter in May of 1997 and later became a principal of Four Star Financial Services, LLC ("Four Star"), an affiliate of 900 Capital Services, Inc. ("900 Capital").

On April 18, 2005, the plaintiffs filed the second amended class action complaint. The second amended complaint alleged that the former officer of First Charter improperly induced several First Charter customers to invest in 900 Capital or affiliates of 900 Capital and further alleges that Four Star, 900 Capital and some of their affiliated entities perpetuated their fraud upon investors through various accounts at First Charter, First Community and Pacific Western with those banks' purported knowing participation in and/or willful ignorance of the scheme. The key allegations in the second amended complaint dated back to the mid-1990s and the second amended complaint alleged several counts for relief including aiding and abetting, conspiracy, fraud, breach of fiduciary duty, relief pursuant to the California Business and Professions Code, negligence and relief under the California Securities Act stemming from an alleged fraudulent scheme and sale of securities issued by 900 Capital and Four Star. In disclosures provided to the parties, plaintiffs have asserted that the named plaintiffs have suffered losses well in excess of \$3.85 million, and plaintiffs have asserted that losses to the class total many tens of millions of dollars. On June 15, 2005, we filed a demurrer to the second amended complaint, and on August 22, 2005, the Court sustained our demurrer as to each of the counts therein, granting plaintiffs leave to amend on four of the six counts, and dismissing the other counts outright.

On August 12, 2005, the Company was notified by Progressive Casualty Insurance Company ("Progressive"), its primary insurance carrier with respect to the Gilbert Litigation that Progressive had determined that, based upon the allegations in the second amended complaint filed in the Gilbert Litigation, there was no coverage with respect to the Gilbert Litigation under the Company's insurance policy with Progressive. Progressive also notified the Company that it was withdrawing its agreement to fund defense costs for the Gilbert Litigation and reserving its right to seek reimbursement from the

**NOTE 8 COMMITMENTS AND CONTINGENCES (Continued)**

Company for any defense costs advanced pursuant to the insurance policy. Through December 31, 2005, Progressive had advanced to the Company approximately \$690,000 of defense costs with respect to the Gilbert Litigation.

On August 12, 2005, Progressive filed an action in federal district court for declaratory relief, currently pending as Progressive Casualty Insurance Company, etc., v. First Community Bancorp, etc., et al., Case No. 05-5900 SVW (MAWx) (the Progressive Litigation), seeking a declaratory judgment with respect to the parties' rights and obligations under Progressive's policy with the Company. On October 11, 2005, the Company filed in federal court a motion to dismiss or stay the Progressive Litigation.

In November 2005, along with certain other defendants, we reached an agreement in principle with respect to the Gilbert Litigation. That agreement is reflected in a written Stipulation of Settlement dated February 9, 2007, which has been executed by all the parties to that settlement. The settlement is subject to approval by the Los Angeles Superior Court and a certain level of participation in the settlement by class members. Assuming all conditions to final consummation of the settlement are met, the Company's contribution to the settlement will be \$775,000, which was accrued in 2005.

While we believe that this settlement, if finalized, will end our exposure to the underlying claims by participating class members, we cannot be certain that all conditions to the settlement will be satisfied or that we will not be subject to further claims by parties related to the same claims who did not participate in the settlement.

In connection with the Gilbert Litigation settlement, we also reached a settlement with Progressive Casualty Insurance Co. in the Progressive Litigation. The settlement with Progressive, which includes an additional contribution by Progressive under the Company's policy toward the settlement of the Gilbert Litigation and a dismissal by Progressive of any claims against First Community for reimbursement, is contingent upon the consummation of the Gilbert Litigation settlement.

In the ordinary course of our business, we are party to various other legal actions, which we believe are incidental to the operation of our business. Although the ultimate outcome and amount of liability, if any, with respect to these other legal actions to which we are currently a party cannot presently be ascertained with certainty, in the opinion of management, based upon information currently available to us, any resulting liability is not likely to have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

**NOTE 9 INCOME TAXES**

We adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109* (FIN 48), on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a threshold and a measurement process for recognizing in the financial statements a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. We have determined that there are no significant uncertain tax positions requiring recognition in our financial statements.

Our evaluation was performed for those tax years which remain open to audit. Open tax years subject to examination are 2003 through 2006 for federal purposes and 2002 through 2006 for state purposes. The IRS is currently examining Foothill's 2004 income tax return.

**NOTE 9 INCOME TAXES (Continued)**

We may from time to time be assessed interest or penalties by taxing authorities, although any such assessments historically have been minimal and immaterial to our financial results. In the event we are assessed for interest and/or penalties, such amount will be classified in the financial statements as income tax expense.

**NOTE 10 RECENT ACCOUNTING PRONOUNCEMENTS**

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ( SFAS 157 ). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Fair value is defined as a market-based measurement and should be determined based on assumptions that a market participant would use when pricing an asset or liability. The market participant's assumptions should include assumptions about risk as well as the effect of a restriction on the sale or use of an asset. Additionally, this statement establishes a fair value hierarchy that provides the highest priority to quoted prices in active markets and the lowest priority to unobservable data. This statement is effective for us on January 1, 2008. We are presently reviewing the standard to determine what effect, if any, it will have on our financial condition and results of operations.

The FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, ( SFAS 159 ) in February 2007. This statement permits companies to choose to measure many financial instruments and certain other items at fair value. Once a company chooses to report an item at fair value, changes in fair value would be reported in earnings at each reporting date. SFAS No. 159 is effective for us on January 1, 2008. We are presently evaluating this Statement and have not yet decided whether we will or will not elect the fair value option for eligible items at the date of adoption.

**NOTE 11 DIVIDEND AND SHARE REPURCHASE PROGRAM APPROVAL**

On August 2, 2007, our Board of Directors (a) declared a quarterly cash dividend of \$0.32 per common share payable on payable on August 31, 2007, to shareholders of record at the close of business on August 16, 2007 and (b) authorized the repurchase of shares of First Community common stock worth up to \$150.0 million over the next twelve months. The stock repurchase program may be limited or terminated at any time without prior notice.

**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Forward-Looking Information**

This Quarterly Report on Form 10-Q contains certain forward-looking information 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. We caution readers 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:

- planned acquisitions and related cost savings cannot be realized or realized within the expected time frame;
- lower than expected revenues;
- credit quality deterioration which could cause an increase in the allowance for credit losses and a reduction in net earnings;
- increased competitive pressure among depository institutions;
- the Company's ability to complete announced acquisitions, 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;
- the possibility that personnel changes will not proceed as planned;
- the cost of additional capital is more than expected;
- a change in the interest rate environment reduces interest margins;
- asset/liability repricing risks and liquidity risks;
- pending legal matters may take longer or cost more to resolve or may be resolved adversely to the Company;
- general economic conditions, either nationally or in the market areas in which the Company does or anticipates doing business, are less favorable than expected;
- the economic and regulatory effects of the continuing war on terrorism and other events of war, including the war in Iraq;
- legislative or regulatory requirements or changes adversely affecting the Company's business;
- changes in the securities markets; and
- regulatory approvals for any acquisitions cannot be obtained on the terms expected or on the anticipated schedule.