FIRST COMMUNITY BANCORP /CA/
Form DEF 14A
March 25, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ý

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

ý Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to §240.14a-12

First Community Bancorp

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

March 25, 2008

To the Shareholders of First Community Bancorp:

We cordially invite you to attend a special meeting of shareholders of First Community Bancorp, a California corporation, which we refer to as the Company, to be held on Wednesday, April 23, 2008 at 10:00 a.m. local time, at The Jonathan Club, 850 Palisades Beach Road, Santa Monica, CA 90403. The Board of Directors of the Company has fixed the close of business on March 12, 2008 as the record date for the purpose of determining shareholders entitled to receive notice of and vote at the special meeting or any postponement or adjournment thereof. Notice of the special meeting and the related proxy statement are enclosed.

At the special meeting, you will be asked to consider and vote upon a proposal to approve the reincorporation of the Company from California to Delaware by means of a merger with and into a wholly owned Delaware subsidiary of the Company. In connection with the reincorporation, the Company will change its name from First Community Bancorp to PacWest Bancorp or such other name as may be approved by the Board of Directors.

You will receive shortly our proxy statement in connection with our 2008 Annual Meeting of Shareholders. Please note that the accompanying proxy statement relates to a separate special meeting of shareholders to vote solely on the reincorporation. To avoid confusion, the proxy card that we are soliciting in connection with the *special* meeting is **GREEN**. The proxy card that we will separately send to you in connection with the *annual* meeting will be white.

The accompanying proxy statement provides you with detailed information about the special meeting and the proposal to change the Company's corporate domicile from California to Delaware. After careful consideration, the board of directors of the Company has approved the proposal and recommends that you vote "**FOR**" the proposal.

Your vote is important. Whether or not you plan to attend the special meeting, please take the time to vote by completing and mailing the enclosed **GREEN** proxy card or by voting via the Internet or telephone according to the instructions on the **GREEN** proxy card. If you sign, date and mail your **GREEN** proxy card without indicating how you want to vote, your proxy will be counted as a vote "FOR" the proposal. **Whether or not you plan to attend the special meeting, please vote as soon as possible to make sure that your shares are represented at the special meeting. Voting by proxy will not prevent you from voting in person if you choose to attend the special meeting. However, if you do not vote, it will have the same effect as a vote against the proposal.**

Thank you in advance for your cooperation and continued support. We look forward to seeing you at the meeting.

Sincerely,

/s/ MATTHEW P. WAGNER

Matthew P. Wagner
Chief Executive Officer

This proxy statement is dated March 25, 2008, and is first being mailed to our shareholders on or about April 1, 2008.

FIRST COMMUNITY BANCORP
401 West "A" Street
San Diego, CA 92101

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS
to be held on April 23, 2008

TO FIRST COMMUNITY SHAREHOLDERS:

NOTICE IS HEREBY GIVEN that First Community Bancorp will hold a special meeting of its shareholders on Wednesday, April 23, 2008, at 10:00 a.m. local time at The Jonathan Club, 850 Palisades Beach Road, Santa Monica, CA 90403, for the following purposes:

1. To approve the principal terms of a merger agreement between the Company and a wholly owned Delaware subsidiary of the Company by which we will effect the reincorporation of the Company from California to Delaware (the "Reincorporation"); and

2. To consider and vote on a proposal to approve, if necessary, adjournment or postponement of the special meeting to solicit additional proxies.

We more fully describe the proposal for Reincorporation of the Company in the attached proxy statement, which you should read carefully and in its entirety before voting.

The Board of Directors of the Company has fixed the close of business on March 12, 2008 as the record date for determining which shareholders have the right to receive notice of and to vote at the special meeting or any adjournment or postponement thereof.

YOUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" APPROVAL OF THE PROPOSALS DESCRIBED ABOVE AND WHICH ARE DESCRIBED IN DETAIL IN THE ACCOMPANYING PROXY STATEMENT.

Whether or not you plan to attend the meeting, please mark, sign, date and return the enclosed GREEN proxy card in the enclosed envelope or submit your proxy by telephone or the Internet prior to the special meeting so that as many shares as possible may be represented at the meeting. Your vote is important and we appreciate your cooperation in returning promptly your executed **GREEN** proxy card or submitting your proxy by telephone or the Internet. Your proxy is revocable and will not affect your right to vote in person at the special meeting.

If you plan to attend, please note that admission to the special meeting will be on a first-come, first-served basis. You may obtain directions to The Jonathan Club, 850 Palisades Beach Road, Santa Monica, CA 90403 by calling The Jonathan Club at (310) 393-9245. Each shareholder who attends may be asked to present valid picture identification, such as a driver's license or passport. Shareholders holding stock in brokerage accounts ("street name" holders) will need to bring a copy of a brokerage account statement reflecting stock ownership as of the record date. Cameras, recording devices and other electronic devices will not be permitted at the meeting.

BY ORDER OF THE BOARD OF DIRECTORS,

/s/ JARED M. WOLFF

Jared M. Wolff, *Corporate Secretary*

401 West "A" Street
San Diego, CA 92101
March 25, 2008

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INTRODUCTION

General

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors (the "Board of Directors" or the "Board") of First Community Bancorp, a California corporation (the "Company," "we" or "our"), to be used at our Special Meeting of Shareholders (the "Special Meeting") and at any postponements or adjournments thereof. The Special Meeting is scheduled to be held as follows:

Date: Wednesday, April 23, 2008
Time: 10:00 a.m., Pacific time
Place: The Jonathan Club
850 Palisades Beach Road
Santa Monica, CA 90403

This Proxy Statement and the enclosed **GREEN** proxy card are first being mailed to our shareholders on or about March 25, 2008.

Important Information Regarding the Availability of Proxy Materials for the Special Meeting to be Held on April 23, 2008.

This Proxy Statement is available at our investor relations website at www.firstcommunitybancorp.com under the link entitled "Shareholder Meeting Documents."

INFORMATION ABOUT THE SPECIAL MEETING AND VOTING

Why did you send me this Proxy Statement and GREEN proxy card?

We sent you this Proxy Statement and the enclosed **GREEN** proxy card because you own shares of common stock of the Company. Your proxy is being solicited by the Board of Directors of the Company. This Proxy Statement provides you with information that will help you cast your vote at the Special Meeting. However, you do not need to attend the Special Meeting to vote your shares. Instead, you may simply complete, sign and return the enclosed **GREEN** proxy card or submit your proxy by telephone or the Internet according to the instructions on the **GREEN** proxy card.

What am I voting on?

You are being asked to vote on the following proposals:

To approve the principal terms of a merger agreement between the Company and a wholly owned Delaware subsidiary of the Company by which we will effect the reincorporation of the Company from California to Delaware (the "Reincorporation"); and

To consider and vote on a proposal to approve, if necessary, adjournment or postponement of the special meeting to solicit additional proxies.

Why is the Company electing to reincorporate from California to Delaware?

The Board of Directors believes that the Reincorporation in Delaware will give the Company enhanced flexibility to declare and pay dividends to our shareholders and a greater measure of flexibility and simplicity in corporate governance than is currently available under California law, and will also help the Company attract and retain its directors and officers. The State of Delaware has adopted comprehensive modern and flexible corporate laws which are periodically revised to respond to the changing legal and business needs of corporations. For this reason, many major corporations have initially incorporated in Delaware or have changed their corporate domiciles to Delaware in a manner similar to that proposed by the Company.

Will the Company change its name as a result of the Reincorporation?

In connection with the completion of the Reincorporation, the Company will change its name to PacWest Bancorp or such other name as the Board of Directors may approve.

Does the Reincorporation affect my ownership or percent of ownership in the Company?

No. Upon consummation of the merger effecting the Reincorporation, each outstanding share of Company common stock will automatically be converted into one share of common stock of the surviving Delaware company. Therefore, the number of shares and the percentage of ownership you hold in the Company will not be changed by virtue of the Reincorporation.

How do I vote?

You may vote by:

signing and dating the **GREEN** proxy card you received and returning it promptly in the envelope provided;

using the telephone number printed on your **GREEN** proxy card;

using the Internet voting instructions printed on your **GREEN** proxy card;

if you hold your shares in "street name," follow the procedures provided by your broker, bank or other nominee; or

appear and vote in person at the Special Meeting. You may obtain directions to The Jonathan Club by calling (310) 393-9245.

If you return a signed **GREEN** proxy card but do not provide voting instructions, your shares will be voted "FOR" approval of the Reincorporation and "FOR" the adjournment proposal.

May I revoke my proxy?

You have the right to change or revoke your proxy at any time before the vote taken at the Special Meeting:

if you hold your shares in your name as a shareholder of record, by notifying First Community Bancorp's Secretary, in writing, before the Special Meeting, that you have revoked your proxy;

by attending the Special Meeting and voting in person (your attendance at the meeting will not, by itself, revoke your proxy; you must vote in person at the meeting);

by submitting a later-dated **GREEN** proxy card;

if you voted by telephone or the Internet, by voting a second time by telephone or the Internet; or

if you have instructed a broker, bank or other nominee to vote your shares, by following the directions received from your broker, bank or other nominee to change those instructions.

How will shares I hold in street name be voted?

If you hold your shares in "street name" (that is, through a bank, broker or other nominee), you should receive a proxy from your bank or brokerage firm asking you how you want to vote your shares. If you do not, you may contact such bank or brokerage firm in whose name your shares are registered and obtain a proxy from them. Please refer to the information in the materials provided by your bank or brokerage firm for an explanation of how to change or revoke your vote and of the effect of not indicating a vote.

What does it mean if I receive more than one GREEN proxy card?

If you have more than one account at the transfer agent and/or with stockbrokers, you will receive separate **GREEN** proxy cards for each account. Please sign and return all **GREEN** proxy cards to ensure that all your shares are voted.

Why are we holding a Special Meeting in addition to the 2008 Annual Meeting of Shareholders?

By having the Special Meeting in advance of the Company's 2008 Annual Meeting, First Community intends to maintain the greatest amount of flexibility with respect to its second quarter dividend and the declaration and payment of any further dividends. Combining the Reincorporation Proposal with the proxy statement for the Annual Meeting could also result in a delayed Annual Meeting. Accordingly, the Company believes it is more appropriate to schedule the Special Meeting on April 23, 2008, ahead of its 2008 Annual Meeting which is scheduled for May 13, 2008.

Can I use my 2008 Annual Meeting proxy card to vote at the Special Meeting?

No. To avoid confusion, the proxy card that we are soliciting in connection with the Special Meeting to vote on the Reincorporation is **GREEN**. You will shortly receive a separate proxy statement in connection with our 2008 Annual Meeting of Shareholders. The proxy card that we will separately send to you in connection with the annual meeting will be white.

Who is entitled to vote? How many votes am I entitled to?

Only shareholders of record as of March 12, 2008 (the "Record Date") may vote at the Special Meeting. According to Computershare Investor Services, our transfer agent, there were 27,148,149 shares of common stock outstanding, excluding 1,001,132 shares of unvested time-based and performance-based restricted stock, held by approximately 2,358 shareholders as of the Record Date.

Each holder of the Company's common stock is entitled to one vote for each share recorded in their name on the books of the Company as of the Record Date on any matter submitted to the shareholders for a vote at the Special Meeting.

If I hold shares of the Company's common stock pursuant to the First Community 401(k) Plan, will I be able to vote?

Yes. You will receive a **GREEN** proxy card for the shares allocated to your 401(k) Plan account, which you should return as indicated on the instructions accompanying the **GREEN** proxy card.

How does the Board of Directors recommend I vote?

The Board of Directors recommends a vote "**FOR**" approval of the Reincorporation Proposal and "**FOR**" the adjournment proposal.

How many shares must be represented at the Special Meeting to constitute a "quorum"?

A majority of the outstanding shares must be present at the Special Meeting, either in person or by proxy, to constitute a quorum. There must be a quorum for the Special Meeting to be held. If you return a signed **GREEN** proxy card, you will be counted as being present, even if you abstain from voting. Broker non-votes (i.e., proxies from banks, brokers or other nominees indicating that such persons have not received instructions from the beneficial owners or other persons entitled to vote as to a matter which such bank, broker or other nominee does not have discretionary power to vote) will also be counted as being present for purposes of determining a quorum.

What is the vote necessary to approve each of the matters being considered at the Special Meeting?

The affirmative vote of the holders of a majority of the outstanding shares of the Company's common stock is required to approve the Reincorporation Proposal.

The affirmative vote of the holders of a majority of the outstanding shares of the Company's common stock, represented and voting at the Special Meeting (which shares voting affirmatively also constitute at least a majority of the required quorum), is required to approve any other matters properly brought before the Special Meeting.

How are abstentions and broker non-votes treated?

Broker non-votes and abstentions will be counted as present for purposes of determining the presence or absence of a quorum. However, since the Reincorporation Proposal must be approved by a majority of the outstanding shares of common stock, abstentions and broker non-votes have the same effect as votes against the proposal. On the other hand, broker non-votes will have no effect on the proposal to adjourn the meeting.

Who pays the costs of soliciting proxies on behalf of the Company?

The Company will pay the cost of preparing, assembling and mailing the proxy materials and soliciting proxies for the Special Meeting. In addition to the solicitation of proxies by mail, solicitations may be made by certain directors, officers and employees of the Company or its subsidiaries telephonically, electronically or by other means of communication. Such directors, officers and employees will receive no additional compensation for their services. We will reimburse brokers and other nominees for costs incurred by them in mailing proxy materials to beneficial owners in accordance with applicable rules.

Who can help answer my questions?

If you have additional questions about the Reincorporation, need assistance in submitting your proxy or voting your shares of common stock, or need additional copies of the proxy statement or the enclosed **GREEN** proxy card, please contact:

Investor Relations
First Community Bancorp
275 N. Brea Blvd.
Brea, California 92821
Phone: (714) 671-6800
Facsimile: (714) 674-5377 or
e-mail: investor-relations@firstcommunitybancorp.com

PROPOSALS:

REINCORPORATION OF THE COMPANY FROM CALIFORNIA TO DELAWARE

On March 7, 2008, the Board of Directors approved the reincorporation of the Company from California to Delaware by means of a merger of the Company with and into a wholly owned Delaware subsidiary of the Company ("Merger Sub"), which will survive the merger and issue one share of its common stock for each share of the Company common stock in connection with the merger (the "Reincorporation"). The name of the Delaware corporation, which will be the successor to the Company, will be PacWest Bancorp, or such other name as the Board of Directors may approve.

The purpose of the Reincorporation is to enable the Company to reincorporate from California to Delaware, where a majority of publicly-traded corporations are domiciled. Reincorporation would allow the Company to have greater flexibility in the declaration and payment of dividends to our shareholders, to take advantage of the certainty provided by extensive Delaware case law, to access the specialized Chancery Courts and to help in the recruitment and retention of qualified independent directors due to the more liberal and more tested exculpation and indemnification permitted under Delaware law. The Board of Directors believes that the Reincorporation is in the best interests of the Company and its shareholders.

Shareholders are urged to read this section of the Proxy Statement carefully, including the related Appendices referenced below and attached to this Proxy Statement, before voting on the Reincorporation. The following discussion summarizes material provisions of the Reincorporation. This summary is subject to and qualified in its entirety by the Agreement and Plan of Merger (the "Reincorporation Agreement") that will be entered into by the Company and Merger Sub in substantially the form attached hereto as Appendix A, the Certificate of Incorporation of Merger Sub to be effective after the Reincorporation (the "Delaware Certificate"), in substantially the form attached hereto as Appendix B, and the bylaws of Merger Sub to be effective after the Reincorporation (the "Delaware Bylaws"), in substantially the form attached hereto as Appendix C. Copies of the Articles of Incorporation of the Company filed in California, as amended to date (the "California Articles"), and the bylaws of the Company, as amended to date (the "California Bylaws"), are available for inspection at the principal office of the Company and copies will be sent to shareholders free of charge upon written request.

***Proxies solicited by the Board of Directors will be voted for the Reincorporation Proposal unless the shareholder specifies otherwise in the proxy*.**

Mechanics of the Reincorporation

The Reincorporation will be effected by the merger of the Company with and into Merger Sub, a wholly owned subsidiary of the Company that has been recently incorporated under the Delaware General Corporation Law (the "DGCL") for purposes of the Reincorporation. The Company will cease to exist as a result of the merger, and the Delaware Company will be the surviving corporation and will continue to operate the business of the Company. Assuming approval by the shareholders of the Company, the Company currently intends to cause the Reincorporation to become effective shortly following the 2008 Annual Meeting of Shareholders scheduled for May 13, 2008.

At the effective time of the Reincorporation (the "Effective Time"), the Company will be governed by the Delaware Certificate, the Delaware Bylaws and the DGCL. Although the Delaware Certificate and the Delaware Bylaws are patterned after the California Articles and the California Bylaws, they nevertheless include provisions that do not exist in the current California Articles, California Bylaws or under the California General Corporation Law. See "Significant Differences Between the Corporation Laws of California and Delaware" beginning on page 10.

In the event the Reincorporation is approved, upon effectiveness of the Reincorporation, each outstanding share of Company common stock will automatically be converted into one share of common stock of the Delaware Company. In addition, each outstanding option to purchase shares of Company common stock will be converted into an option to purchase the same number of shares of the Delaware Company common stock with no other changes in the terms and conditions of such options. The Company's other employee benefit arrangements including, but not limited to, equity incentive plans with respect to issued unvested restricted stock, will be continued by the Delaware Company upon the terms and subject to the conditions specified in such plans.

CERTIFICATES FOR SHARES IN THE COMPANY WILL AUTOMATICALLY REPRESENT SHARES IN THE DELAWARE COMPANY UPON COMPLETION OF THE MERGER, AND SHAREHOLDERS WILL NOT BE REQUIRED TO EXCHANGE STOCK CERTIFICATES AS A RESULT OF THE REINCORPORATION.

Upon the effectiveness of the Reincorporation, the name of the Company will change from First Community Bancorp to PacWest Bancorp, or such other name as may be approved by the Board of Directors. Other than the name change and change in corporate domicile, the Reincorporation will not result in any change in the business, physical location, management, assets, liabilities or net worth of the Company, nor will it result in any change in location of Company employees, including the Company's management. Upon consummation of the Reincorporation, the daily business operations of the Company will continue as they are presently conducted at the Company's principal executive office located at 401 West "A" Street, San Diego, CA 92101. The consolidated financial condition and results of operations of the Delaware Company immediately after consummation of the Reincorporation will be the same as those of the Company immediately prior to the consummation of the Reincorporation. In addition, upon the effectiveness of the merger, the Board of Directors of the Delaware Company (the "Delaware Company Board") will consist of those persons elected to the current Board of Directors of the Company and the individuals serving as executive officers of the Company immediately prior to the Reincorporation will continue to serve as executive officers of the Delaware Company. Upon effectiveness of the Reincorporation, the Delaware Company will be the successor in interest to the Company and the shareholders will become shareholders of the Delaware Company.

The Reincorporation Agreement provides that the Board of Directors may abandon the Reincorporation at any time prior to the Effective Time if the Board of Directors determines that the Reincorporation is inadvisable for any reason. For example, the DGCL or the California General Corporation Law may be changed to reduce the benefits that the Company hopes to achieve through the Reincorporation, or the costs of operating as a Delaware corporation may be increased, although the Company does not know of any such changes that are contemplated. The Reincorporation Agreement may be amended at any time prior to the Effective Time, either before or after the shareholders have voted to adopt the proposal, subject to applicable law. The Company will re-solicit the shareholders' approval of the Reincorporation if the terms of the Reincorporation Agreement are changed in any material respect.

Principal Reasons for the Reincorporation

The Board of Directors believes that any direct benefit that the DGCL provides to a corporation indirectly benefits the shareholders, who are the owners of the Company. The Board believes that there are several reasons why a reincorporation to Delaware is in the best interests of the Company and its shareholders. As explained in more detail below, these reasons can be summarized as follows:

enhanced flexibility for declaring and paying dividends;

greater predictability, flexibility and responsiveness of the DGCL to corporate needs; and

enhanced ability of Delaware corporations to attract and retain qualified independent directors due to the more liberal and more tested exculpation and indemnification permitted under Delaware law while providing appropriate protection for shareholders from possible abuses by directors and officers.

Enhanced Flexibility for Paying Dividends. Delaware law is more flexible than California law with respect to payment of dividends. Delaware law generally provides that a corporation may declare and pay dividends out of surplus or, if there is no surplus, out of net profits for the fiscal year in which the dividend is declared and/or for the preceding fiscal year. Surplus is defined as the excess of a corporation's net assets (i.e., its total assets minus its total liabilities) over the capital associated with issuances of its common stock. Moreover, Delaware law permits a board of directors to reduce its capital and transfer such amount to its surplus.

Under California law, a corporation may not make any distribution to its shareholders unless either: (i) the corporation's retained earnings immediately prior to the proposed distribution equal or exceed the amount of the proposed distribution; or (ii) immediately after giving effect to the distribution, the corporation's assets (exclusive of goodwill, capitalized research and development expenses and deferred charges) would be at least equal to one and one fourth ($1^1/_4$) times its liabilities (not including deferred taxes, deferred income and other deferred credits). These tests are applied to California corporations on a consolidated basis. For a bank holding company such as the Company, clause (ii) is often not available for the payment of dividends due to the fact that the consolidated liabilities of a bank holding company include a substantial amount of deposit liabilities to its customers.

The Board of Directors believes that despite the fact that the Company generates significant amounts of cash, California law could impair the Company's ability to pay dividends. The current level of the Company's market capitalization compared to book value may require the Company to record a noncash charge to earnings under generally accepted accounting principles for impairment to goodwill. Such noncash charge could reduce or eliminate retained earnings and therefore could limit our dividend paying ability or prevent the payment of dividends. Accordingly, changing our state of incorporation to Delaware would put the Company on equal footing with other Delaware-based bank holding companies in terms of dividend paying flexibility.

Predictability, Flexibility and Responsiveness to Corporate Needs. Delaware has adopted comprehensive and flexible corporate laws which are revised regularly to meet changing business circumstances. The Delaware legislature is particularly sensitive to issues regarding corporate law and is especially responsive to developments in modern corporate law. In addition, Delaware offers a system of specialized Chancery Courts to deal with corporate law questions which have streamlined procedures and processes which help provide relatively quick decisions. These courts have developed considerable expertise in dealing with corporate issues as well as a substantial and influential body of case law interpreting the DGCL. In addition, the Delaware Secretary of State is particularly flexible and responsive in its administration of the filings required for mergers, acquisitions and other corporate transactions. Delaware has become a preferred domicile for most major American corporations and the DGCL and administrative practices have become comparatively well-known and widely understood. As a result of these factors, it is anticipated that the DGCL will provide greater efficiency, predictability and flexibility in the Company's legal affairs than is presently available under California law.

Qualified Directors and Officers. The Board of Directors believes that reincorporation under Delaware law will enhance the Company's ability to attract and retain qualified directors and officers as well as encourage directors and officers to continue to make independent decisions in good faith on behalf of the Company. The DGCL offers greater certainty and stability from the perspective of those who serve as corporate officers and directors. The Company believes that the better understood, and comparatively stable corporate environment afforded by Delaware will enable it to compete more

effectively with other public companies, most of which are incorporated in Delaware, in the recruitment, from time to time, of talented and experienced directors and officers.

The parameters of director and officer liability are more extensively addressed in Delaware court decisions and are therefore better defined and better understood than under California law. The Board of Directors believes that reincorporation in Delaware will enhance the Company's ability to recruit and retain directors and officers in the future, while providing appropriate protection for shareholders from possible abuses by directors and officers. In this regard, it should be noted that directors' personal liability is not, and cannot be, eliminated under the DGCL for intentional misconduct, bad faith conduct or any transaction from which the director derives an improper personal benefit.

THE COMPANY GENERALLY IS NOT SEEKING TO CHANGE THE CURRENT CHARTER AND BYLAW PROVISIONS OF THE COMPANY THROUGH REINCORPOTATION AND, EXCEPT FOR THOSE CHANGES DESCRIBED BELOW, THIS PROPOSAL DOES NOT SEEK TO ALTER THE RIGHTS OF THE SHAREHOLDERS OR THE RULES BY WHICH THE COMPANY OPERATES OR BY WHICH ITS AFFAIRS ARE GOVERNED.

Possible Negative Considerations

Notwithstanding the belief of the Board of Directors as to the benefits to the shareholders of the Reincorporation, it should be noted that Delaware law has been criticized by some commentators on the grounds that it does not afford minority shareholders the same substantive rights and protections as are available in a number of other states. The Reincorporation of the Company in Delaware may make it more difficult for minority shareholders to elect directors and influence Company policies. It should also be noted that the interests of the Board of Directors, management and affiliated shareholders in voting on the Reincorporation Proposal may not be the same as those of unaffiliated shareholders. For a comparison of shareholders' rights and the power of management under Delaware and California law, see "The Charters and Bylaws of the Company and Merger Sub Compared and Contrasted" beginning on page 8 and "Significant Differences Between the Corporation Laws of California and Delaware" beginning on page 10. In addition, franchise taxes in Delaware may be greater than in California.

The Board of Directors has considered the potential disadvantages of the Reincorporation and has concluded that the potential benefits outweigh the possible disadvantages.

Board of Directors Recommendation

For the reasons described in this Proxy Statement, your Board of Directors recommends unanimously that you vote "**FOR**" approval of the Reincorporation Proposal.

The Charters and Bylaws of the Company and Merger Sub Compared and Contrasted

With certain exceptions, the provisions of the Delaware Certificate and Delaware Bylaws are the same as, or as consistent as possible with, those of the California Articles and California Bylaws. However, the Reincorporation includes the implementation of certain provisions in the Delaware Certificate and Delaware Bylaws which are required by the DGCL and which may alter the rights of shareholders and the powers of management and reduce shareholder participation in certain important corporate decisions. These provisions may have anti-takeover implications and are described in detail below.

Approval by shareholders of the Reincorporation will constitute an approval of the inclusion in the Delaware Certificate and Delaware Bylaws of each of the provisions described below. In addition, certain other changes altering the rights of shareholders and powers of management could be implemented in the future by amendment of the Delaware Certificate following shareholder approval and certain such changes could be implemented by amendment of the Delaware Bylaws without

shareholder approval. For a discussion of such changes, see "Significant Differences Between the Corporation Laws of California and Delaware." This discussion of the Delaware Certificate and Delaware Bylaws is qualified by reference to Appendices B and C attached hereto, respectively.

Change in Number of Directors

Under the California General Corporation Law, although a change in the number of directors must in general be approved by the shareholders, the board of directors may fix the exact number of directors within a stated range set forth in either the articles of incorporation or bylaws, if that stated range has been approved by the shareholders. Any change outside of the established range or a change in the established range must be approved by the shareholders. The California Bylaws provide that a change in the stated range must be approved by a vote of the holders of at least a majority of the outstanding shares. The DGCL permits the board of directors alone to change the authorized number of directors by amendment to the bylaws or in the manner provided in the bylaws, unless the certificate of incorporation fixes the number of directors (in which case a change in the number of directors may be made only by an amendment of such certificate, which would require a vote of shareholders).

While both the California Bylaws and the Delaware Bylaws establish a range of seven (7) to fifteen (15) directors, currently fixed by resolution of the Board of Directors at thirteen (13), following the Reincorporation, the approval of the shareholders would not be required to change the stated range of directors, as would be the case in California. Nasdaq corporate governance rules require that the majority of a board of directors be independent and, therefore, as a practical matter, it would be difficult for the Board of Directors to dramatically increase its size beyond the current range and fill it with qualified, independent directors. The Board of Directors currently has 11 of 13 directors who are independent. If the Reincorporation is approved, the thirteen (13) directors of the Company will continue to serve as the directors of surviving entity following the merger.

Filling Vacancies on the Board of Directors

Under California law, any vacancy on the board of directors other than one created by removal of a director may be filled by the board. If the number of directors is less than a quorum, a vacancy may be filled by the unanimous written consent of the directors then in office, by the affirmative vote of a majority of the directors at a meeting held pursuant to notice or waivers of notice, or by a sole remaining director. A vacancy created by removal of a director may be filled by the board only if authorized by a corporation's articles of incorporation or by a bylaw approved by the corporation's shareholders.

The California Bylaws authorize only shareholders to fill vacancies created by removal of a director, except that a vacancy created by the Board declaring an office of a director vacant because a director has been convicted of a felony or declared of unsound mind by an order of court may be filled by the Board. Under Delaware law, vacancies and newly created directorships may be filled by a majority of the directors then in office (even though less than a quorum) or by a sole remaining director, unless otherwise provided in the certificate of incorporation or bylaws. The Delaware Bylaws follow Delaware law and provide that vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office (even though less than a quorum) or by a sole remaining director.

Shareholder Proposal Notice Provisions

There is no specific statutory requirement under California or Delaware law with regard to advance notice of director nominations and shareholder proposals. Absent a bylaw restriction, director nominations and shareholder proposals are subject to federal securities laws, which generally provide that shareholder proposals that the proponent wishes to include in the Company's proxy materials must

be received not less than 120 days in advance of the anniversary of the date on which the proxy statement was released in connection with the previous year's annual meeting.

The California Bylaws provide that notice of the name of any person to be nominated by any shareholders for election as a director of the Company at any meeting of shareholders shall be delivered to the Secretary of the Company at its principal executive office not less than 60 nor more than 90 days prior to the date of the meeting; provided, however that if the date of the meeting is first publicly announced or disclosed (in a public fling or otherwise) less than 70 days prior to the date of the meeting, such advance notice shall be given not more than 10 days after such date is first announced or disclosed. The California Bylaws do not provide an additional advance notice requirement beyond federal securities laws with respect to other shareholder proposals. On the other hand, the Delaware Bylaws require that to be timely, a shareholder proposal (including that for director nominations and other matters) to be presented at an annual meeting shall be delivered to the Secretary of the Company at its principal executive office not less than 90 days nor more than 120 days prior to the anniversary of the prior year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than 30 days prior to or more than 30 days after such anniversary date, notice by the shareholder to be timely must be so delivered on the later to occur of (i) the date 90 days prior to such other meeting date or (ii) the 10th day following the date such other meeting date is first publicly announced or disclosed.

Significant Differences Between the Corporation Laws of California and Delaware

The General Corporation Laws of California and Delaware differ in many respects and, consequently, it is not practical to summarize all of the differences in this Proxy Statement. The following provides a summary of major substantive differences between the California General Corporation Law and the DGCL beyond those discussed in "The Charters and Bylaws of the Company and Merger Sub Compared and Contrasted" above. It is not an exhaustive description of all differences between the laws of the two states. Accordingly, all statements herein are qualified in their entirety by reference to the respective General Corporation Laws of California and Delaware.

Shareholder Voting in Acquisitions

The California and Delaware laws are substantially similar in terms of when shareholder approval is required for a corporation to undertake various types of acquisition transactions. Both California and Delaware law generally require that a majority of the shareholders of both the acquiring and target corporations approve a statutory merger. In addition, both California and Delaware law require that a sale of all or substantially all of the assets of a corporation be approved by a majority of the outstanding voting shares of the corporation selling its assets.

The DGCL does not require a shareholder vote of the surviving corporation in a merger (unless provided otherwise in the corporation's certificate of incorporation) if:

The merger agreement does not amend the existing certificate of incorporation;

Each share of stock of the surviving corporation outstanding immediately before the transaction is an identical outstanding share after the merger; and

Either:

no shares of common stock of the surviving corporation (and no shares, securities or obligations convertible into such stock) are to be issued in the merger, or

the shares of common stock of the surviving corporation to be issued in the merger (including shares issuable upon conversion of any other shares, securities or obligations to

be issued in the merger) do not exceed twenty percent (20%) of the shares of common stock of the surviving corporation outstanding immediately prior to the transaction.

California law contains a similar exception to its voting requirements for reorganizations, where shareholders or the corporation itself immediately prior to the reorganization will own immediately after the reorganization equity securities constituting more than five-sixths (5/6) of the voting power of the surviving or acquiring corporation or its parent entity.

Limitations on Certain Business Combinations

Delaware, like a number of states, has adopted special laws designed to make certain kinds of "unfriendly" corporate takeovers, or other non-board approved transactions involving a corporation and one or more of its significant shareholders, more difficult.

Under Section 203 of the Delaware statute, a Delaware corporation is prohibited from engaging in a "business combination" with an "interested shareholder" for three years following the date that such person or entity becomes an interested shareholder. With certain exceptions, an interested shareholder is a person or entity that owns, individually or with or through other persons or entities, fifteen percent (15%) or more of the corporation's outstanding voting stock (including rights to acquire stock pursuant to an option, warrant, agreement, arrangement or understanding, or upon the exercise of conversion or exchange rights, and also stock as to which the person has voting rights only). The three-year moratorium imposed by Section 203 on business combinations does not apply if:

Prior to the date on which the interested shareholder becomes an interested shareholder, the board of directors of the corporation approves either the business combination or the transaction that resulted in the person or entity becoming an interested shareholder;

Upon consummation of the transaction that makes the person or entity an interested shareholder, the interested shareholder owns at least eighty-five percent (85%) of the corporation's voting stock outstanding at the time the transaction commenced (excluding, for purposes of determining voting stock outstanding, shares owned by directors who are also officers of the corporation and shares held by employee stock plans that do not give employee participants the right to decide confidentially whether to accept a tender or exchange offer); or

On or after the date the person or entity becomes an interested shareholder, the business combination is approved both by the board of directors and by the shareholders at a meeting by sixty-six and two-thirds percent (66 2/3%) of the outstanding voting stock not owned by the interested shareholder.

In the present case, the Delaware Company has elected in its certificate of incorporation not to be governed by Section 203.

California law does not have a section similar to Delaware Section 203, but it does have different provisions that may limit a corporation's ability to engage in certain business combinations. California law requires that, in a merger of a corporation with a shareholder (or its affiliate) who hold more than fifty percent (50%) but less than ninety percent (90%) of the corporation's common stock, the other shareholders of the corporation must receive common stock in the transaction, unless all the corporation's shareholders consent to the transaction. This provision of California law may have the effect of making a "cash-out" merger by a majority shareholder (possibly as the second step in a two-step merger) more difficult to accomplish. Delaware law does not have an analogue California law in this respect, under some circumstances Section 203 does provide similar protection to shareholders against coercive two-tiered bids for a corporation in which the shareholders are not treated equally.

California law also provides that, except in certain circumstances, when a tender offer or a proposal for a reorganization or sale of assets is made by an interested party (generally a controlling or

managing party of the corporation), the interested party must provide the other shareholders with an affirmative written opinion as to the fairness of the consideration to be paid to the shareholders. This fairness opinion requirement does not apply to corporations that have fewer than 100 shareholders of record or to a transaction that has been qualified under California state securities laws. Furthermore, if a tender of shares or a vote is sought pursuant to an interested party's proposal and a later proposal is made by another party at least 10 days prior to the date of acceptance of the interested party's proposal, the shareholders must be informed of the later offer and be afforded a reasonable opportunity to withdraw their vote, consent or proxy, and to withdraw any tendered shares. The DGCL has no comparable provision.

Cumulative Voting

Under California law, any shareholder may cumulate his or her votes in the election of directors upon proper notice of his or her intention to do so, except that corporations listed on the American or New York Stock Exchanges or with securities qualified for trading on the Nasdaq Global Select Market may eliminate cumulative voting with shareholder approval. The California Bylaws provide for cumulative voting. Under the DGCL, cumulative voting in the election of directors is not mandatory. However, the Delaware Certificate also provides for cumulative voting.

In an election of directors under cumulative voting, each share of voting stock is entitled to vote the number of votes to which such share would normally be entitled, multiplied by the number of directors to be elected. A shareholder may then cast all such votes for a single candidate or may allocate them among as many candidates as the shareholder may choose. Cumulative voting may enable a minority shareholder or group of shareholders to elect at least one representative to the board. Without cumulative voting, the holders of a majority of the shares present at an annual meeting would have the power to elect all the directors to be elected at that meeting, and no person could be elected without the support of a majority of the shareholders voting. Without cumulative voting, any director or the entire board of directors of a corporation may be removed with or without cause with the approval of a majority of the outstanding shares entitled to vote at an election of directors.

Removal of Directors

In general, under California law, any director, or the entire board of directors, may be removed, with or without cause, with the approval of a majority of the outstanding shares entitled to vote. In the case of a corporation with cumulative voting or whose board is classified, however, no individual director may be removed (unless the entire board is removed) if the number of votes cast against such removal would be sufficient to elect the director under cumulative voting rules. In addition, shareholders holding at least ten percent (10%) of the outstanding shares of any class may bring suit to remove any director in case of fraudulent or dishonest acts or gross abuse of authority or discretion.

Under the DGCL, any director, or the entire board of directors, of a corporation that does not have a classified board of directors or cumulative voting may be removed with or without cause with the approval of a majority of the outstanding shares entitled to vote at an election of directors. In the case of a Delaware corporation whose board is classified, unless the certificate of incorporation provides otherwise, shareholders may effect such removal only for cause. In addition, as in California, if a Delaware corporation has cumulative voting, and if less than the entire board is to be removed, a director may not be removed without cause by a majority of the outstanding shares if the votes cast against such removal would be sufficient to elect the director under cumulative voting rules. Delaware law also permits a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with the removal of directors.

In the present case, the California Articles and California Bylaws do not provide for a classified board of directors but the California Bylaws do provide for cumulative voting. As a result, the

Company's directors currently may be removed, with or without cause, with the approval of a majority of the outstanding shares entitled to vote. As the Delaware Company will similarly not have a classified board, but will have cumulative voting, the directors of the Delaware Company after the Reincorporation will continue to be subject to removal with or without cause.

Shareholder Power to Call Special Shareholders' Meeting

Under California law, a special meeting of shareholders may be called by the board of directors, the Chairman of the Board, the President, the holders of shares entitled to cast not less than 10% of the votes at such meeting and such persons as are authorized by the articles of incorporation or bylaws. Under the DGCL, a special meeting of shareholders may be called by the board of directors or by any other person authorized to do so in the certificate of incorporation or the bylaws. Although permitted to do so, the Delaware Bylaws do not eliminate the right of shareholders to call a special meeting; instead, to remain consistent with the California Bylaws, the Delaware Bylaws provide that such a meeting may be called by the Delaware Company Board, the Chairman of the Delaware Company Board, the Chief Executive Officer or the holders of shares entitled to cast not less than 10% of the votes at such meeting.

Limitation of Liability and Indemnification

California and Delaware have similar laws respecting the liability of directors of a corporation and the indemnification by the corporation of its officers, directors, employees and other agents for damages they incur. The laws of both states also permit corporations to adopt a provision in their charters eliminating the liability of a director to the corporation or its shareholders for monetary damages for breach of the director's fiduciary duty of care. Nonetheless, as discussed below, there are certain differences between the laws of the two states respecting indemnification and limitation of liability. In general, however, Delaware law is somewhat broader in allowing corporations to indemnify and limit the liability of corporate agents, which the Board believes, among other things, helps Delaware corporations in attracting and retaining outside directors.

Elimination of Director Personal Liability for Monetary Damages

One provision of the revised DGCL permits a corporation to include a provision in its certificate of incorporation which limits or eliminates the personal liability of a director for monetary damages arising from breaches of his or her fiduciary duties to the corporation or its shareholders, subject to certain exceptions. Such a provision may not, however, eliminate or limit director monetary liability for:

Breaches of the director's duty of loyalty to the corporation or its shareholders;

Acts or omissions not in good faith or involving intentional misconduct or knowing violations of law;

The payment of unlawful dividends or unlawful stock repurchases or redemptions; or

Transactions in which the director received an improper personal benefit.

Such a limitation of liability provision also may not limit a director's liability for violation of, or otherwise relieve the Company or directors from the necessity of complying with, federal or state securities laws, or affect the availability of non-monetary remedies such as injunctive relief or rescission.

California law contains similar authorization for a corporation to eliminate the personal liability of directors for monetary damages, except where such liability is based on:

intentional misconduct or knowing and culpable violation of law;

acts or omissions that a director believes to be contrary to the best interests of the corporation or its shareholders or that involve the absence of good faith on the part of the director;

receipt of an improper personal benefit;

acts or omissions that show reckless disregard for the director's duty to the corporation or its shareholders, where the director in the ordinary course of performing a director's duties should be aware of a risk of serious injury to the corporation or its shareholders;

acts or omissions that constitute an unexcused pattern of inattention that amounts to an abdication of the director's duty to the corporation and its shareholders;

transactions between the corporation and a director who has a material financial interest in such transaction; and

liability for improper distributions, loans or guarantees.

In the present case, the current California Articles eliminate the liability of directors to the Company for monetary damages to the fullest extent permissible under California law. The Delaware Certificate similarly eliminates the liability of directors to the Company for monetary damages to the fullest extent permissible under Delaware law. As a result, following the Reincorporation, directors of the Delaware Company cannot not be held liable for monetary damages even for gross negligence or lack of due care in carrying out their fiduciary duties as directors, so long as that gross negligence or lack of due care does not involve bad faith or a breach of their duty of loyalty to the Company.

Indemnification

California law requires indemnification when the individual has defended successfully the action on the merits. Delaware law requires indemnification of expenses when the individual being indemnified has successfully defended any action, claim, issue or matter therein, on the merits or otherwise. Delaware law generally permits indemnification of expenses, including attorneys' fees, actually and reasonably incurred in the defense or settlement of a derivative or third-party action, provided there is a determination by a majority vote of a disinterested quorum of the directors, by independent legal counsel or by the shareholders that the person seeking indemnification acted in good faith and in a manner reasonably believed to be in best interests of the corporation. Without court approval, however, no indemnification may be made in respect of any derivative action in which such person is adjudged liable for negligence or misconduct in the performance of his or her duty to the corporation. Expenses incurred by an officer or director in defending an action may be paid in advance under Delaware law or California law, if the director or officer undertakes to repay such amounts if it is ultimately determined that he or she is not entitled to indemnification. In addition, the laws of both states authorize a corporation to purchase indemnity insurance for the benefit of its officers, directors, employees and agents whether or not the corporation would have the power to indemnify against the liability covered by the policy.

California law permits a California corporation to provide rights to indemnification beyond those provided therein to the extent such additional indemnification is authorized in the corporation's articles of incorporation. Thus, if so authorized, rights to indemnification may be provided pursuant to agreements or bylaw provisions which make mandatory the permissive indemnification provided by California law. The California Articles authorize indemnification to the fullest extent permissible under California law. Delaware law also permits a Delaware corporation to provide indemnification in excess of that provided by statute. Delaware law does not require authorizing provisions in the certificate of incorporation.

Inspection of Shareholder Lists and Books and Records

Both California and Delaware law allow any shareholder to inspect a corporation's shareholder list for a purpose reasonably related to the person's interest as a shareholder. California law provides, in addition, for an absolute right to inspect and copy the corporation's shareholder list by persons holding an aggregate of five percent (5%) or more of the corporation's voting shares, or shareholders holding an aggregate of 1% or more of such shares who have contested the election of directors. Delaware law also allows the shareholders to inspect the list of shareholders entitled to vote at a meeting within a ten-day period preceding a shareholders' meeting for any purpose germane to the meeting. Delaware law, however, contains no provisions comparable to the absolute right of inspection provided by California law to certain shareholders.

Under California law any shareholder may examine the accounting books and records and the minutes of the shareholders and the board and its committees, provided that the inspection is for a purpose reasonably related to the shareholder's interests as a shareholder. The DGCL may be slightly more favorable to shareholders in this respect, in that a shareholder with a proper purpose is not limited to inspecting accounting books and records and minutes, and may examine other records as well. In addition, California law limits the right of inspection of shareholder lists to record shareholders, whereas Delaware has extended that right to beneficial owners of shares.

Appraisal Rights

Under both California and Delaware law, a shareholder of a corporation participating in certain major corporate transactions may, under varying circumstances, be entitled to appraisal rights, by which the shareholder may demand to receive cash in the amount of the fair market value of his or her shares in lieu of the consideration he or she would otherwise receive in the transaction.

Under Delaware law, fair market value is determined without reference to any element of value arising from the accomplishment or expectation of the merger or consolidation, and appraisal rights are generally not available to:

shareholders with respect to a merger or consolidation by a corporation the shares of which are either listed on a national securities exchange or are held of record by more than 2,000 holders if such shareholders receive only shares of the surviving corporation or shares of any other corporation that are either listed on a national securities exchange or held of record by more than 2,000 holders;

shareholders of a corporation surviving a merger if no vote of the shareholders of the surviving corporation is required to approve the merger under Delaware law.

The limitations on the availability of appraisal rights under California law are different from those under Delaware law. Shareholders of a California corporation whose shares are listed on a national securities exchange generally do not have such appraisal rights unless the holders of at least 5% of the class of outstanding shares claim the right or the corporation or any law restricts the transfer of the shares to be received. Appraisal rights are also not available if the shareholders of a corporation or the corporation itself, or both, immediately prior to the reorganization will own immediately after the reorganization equity securities representing more than 5/6th of the voting power of the surviving or acquiring corporation or its parent entity. Thus, appraisal rights are not available to shareholders of the Company under California law with respect to the Reincorporation.

Dissolution

Under California law, the holders of 50% or more of a corporation's total voting power may authorize the corporation's dissolution, with or without the approval of the corporation's board of directors, and this right may not be modified by the articles of incorporation. Under Delaware law,

unless the board of directors approves the proposal to dissolve, the dissolution must be unanimously approved by all the shareholders entitled to vote on the matter. Only if the dissolution is initially approved by the board of directors may the dissolution be approved by a simple majority of the outstanding shares entitled to vote. In addition, Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with such a board-initiated dissolution. In the present case, however, the Delaware Certificate contains no such supermajority voting requirement.

Interested Director Transactions

Under both California and Delaware law, certain contracts or transactions in which one or more of a corporation's directors has an interest are not void or voidable simply because of such interest, provided that certain conditions, such as obtaining required disinterested approval and fulfilling the requirements of good faith and full disclosure, are met. With certain minor exceptions, the conditions are similar under California and Delaware law.

Shareholder Derivative Suits

California law provides that a shareholder bringing a derivative action on behalf of a corporation need not have been a shareholder at the time of the transaction in question, if certain tests are met. Under Delaware law, a shareholder may bring a derivative action on behalf of the corporation only if the shareholder was a shareholder of the corporation at the time of the transaction in question or if his or her stock thereafter came to be owned by him or her by operation of law.

California law also provides that the corporation or the defendant in a derivative suit may make a motion to the court for an order requiring the plaintiff shareholder to furnish a security bond. Delaware does not have a similar bonding requirement.

Dividends and Repurchases of Shares

Delaware law is more flexible than California law with respect to payment of dividends and implementing share repurchase programs. Delaware law generally provides that a corporation may redeem or repurchase its shares out of its surplus. In addition, Delaware law generally provides that a corporation may declare and pay dividends out of surplus or, if there is no surplus, out of net profits for the fiscal year in which the dividend is declared and/or for the preceding fiscal year. Surplus is defined as the excess of a corporation's net assets (i.e., its total assets minus its total liabilities) over the capital associated with issuances of its common stock. Moreover, Delaware law permits a board of directors to reduce its capital and transfer such amount to its surplus.

Under California law, a corporation may not make any distribution to its shareholders unless either:

- the corporation's retained earnings immediately prior to the proposed distribution equal or exceed the amount of the proposed distribution; or

- immediately after giving effect to the distribution, the corporation's assets (exclusive of goodwill, capitalized research and development expenses and deferred charges) would be at least equal to one and one fourth ($1^1/_4$) times its liabilities (not including deferred taxes, deferred income and other deferred credits), and the corporation's current assets would be at least equal to its current liabilities (or one and one fourth ($1^1/_4$) times its current liabilities if the average pre-tax and pre- interest expense earnings for the preceding two fiscal years were less than the average interest expense for such years).

These tests are applied to California corporations on a consolidated basis.

Interests of the Company's Directors and Executive Officers in the Reincorporation

In considering the recommendations of the Board, the Company's shareholders should be aware that certain of the Company's directors and executive officers have interests in the transaction that are different from, or in addition to, the interests of the Company's shareholders generally. For instance, the Reincorporation in Delaware may be of benefit to the Company's directors and officers by reducing the director's potential personal liability and increasing the scope of permitted indemnification, by strengthening directors' ability to resist a takeover bid, and in other respects. The Board was aware of these interests and considered them, among other matters, in reaching its decision to approve the Reincorporation and to recommend that our shareholders vote in favor of the Proposal.

Material Federal Income Tax Considerations

This section of the Proxy Statement summarizes the material U.S. federal income tax considerations relevant to the Reincorporation that apply to holders of the Company's common stock. This discussion is based on existing provisions of the Internal Revenue Code of 1986, as amended, existing treasury regulations and current administrative rulings and court decisions, all of which are subject to change. Any such change, which may or may not be retroactive, could alter the tax consequences to the Delaware Company, the Company or its shareholders as described herein.

Not all U.S. federal income tax considerations that may be relevant to you in light of your particular circumstances are discussed herein. Factors that could alter the tax consequences of the Reincorporation to you include:

- if you are a dealer in securities;
- if you are a foreign person or entity;
- if you do not hold your shares of the Company's common stock as capital assets; or
- if you acquired your shares of the Company's common stock in connection with stock option plans or in other compensatory transactions.

In addition, not all of the tax consequences of the Reincorporation under foreign, state or local tax laws are discussed herein, nor are the tax consequences of transactions effectuated prior or subsequent to, or concurrently with, the Reincorporation, whether or not any such transactions are undertaken in connection with the Reincorporation, including, for example, any transaction in which shares of the Company's common stock are acquired or shares of the Delaware Company common stock are disposed. The tax consequences to holders of options to acquire shares of the Company's common stock are also not discussed herein. Accordingly, you are urged to consult your own tax advisors as to the specific tax consequences of the Reincorporation, including the applicable federal, state, local and foreign tax consequences to you of the Reincorporation.

A ruling from the Internal Revenue Service in connection with the Reincorporation will not be requested.

It is anticipated that the Reincorporation will qualify as a reorganization within the meaning of Section 368 of the Internal Revenue Code, which will result in the following material federal income tax consequences:

- You will not recognize any gain or loss upon your receipt of Delaware Company common stock in the Reincorporation;
- the aggregate tax basis of the Delaware Company common stock received by you in the Reincorporation will be the same as the aggregate tax basis of shares of the Company's common stock surrendered in exchange therefor;

the holding period of the Delaware Company common stock received by you in the Reincorporation will include the period for which shares of the Company's common stock surrendered in exchange therefor was considered to be held; and

Neither the Delaware Company nor the Company will recognize gain or loss solely as a result of the Reincorporation.

If the Internal Revenue Service successfully challenges the status of the Reincorporation as a reorganization, you would recognize taxable gain or loss with respect to each share of the Company's common stock surrendered equal to the difference between your basis in such share and the fair market value, as of the completion of the Reincorporation, of the Delaware Company common stock received in exchange therefor. In such event, your aggregate basis in the Delaware Company common stock so received would equal its fair market value as of the effective time of the Reincorporation, and your holding period for such stock would begin the day after the Reincorporation.

Accounting Consequences

We believe that there will be no material accounting consequences for us resulting from the Reincorporation.

Regulatory Approval

The Reincorporation Proposal is subject to review by state and federal regulatory authorities, including the approval of all appropriate bank regulatory authorities of the transactions contemplated by the Reincorporation, or confirmation by such bank regulatory authorities that no such approval is required.

ADJOURNMENTS OR POSTPONEMENTS OF THE SPECIAL MEETING

Although it is not anticipated, the Special Meeting may be adjourned or postponed for the purpose of soliciting additional proxies in favor of the Reincorporation Proposal. Any adjournment or postponement of the Special Meeting may be made without notice, other than by an announcement made at the Special Meeting. Any adjournment or postponement of the Special Meeting for the purpose of soliciting additional proxies will allow the Company's shareholders who have already sent in their proxies to revoke them at any time prior to their use.

The Board of Directors unanimously recommends a vote "**FOR**" approval of the Reincorporation Proposal and "**FOR**" the Adjournment Proposal.

BENEFICIAL OWNERS OF MORE THAN FIVE PERCENT

The following table sets forth information as of the Record Date regarding the beneficial owners of more than five percent of the outstanding shares of the Company's common stock (the only class of equity outstanding). To the Company's knowledge, based on the public filings which beneficial owners of more than five percent of the outstanding shares of the Company's common stock are required to make with the SEC, there are no other beneficial owners of more than five percent of the outstanding shares of the Company's common stock as of the Record Date other than those set forth below.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership of Common Stock