

1st Century Bancshrs Inc FCTY (NAS)

Last Close	Industry	Sector
3.75 USD	Regional - Pacific Banks	Financial Services

Profile

Pricing data through 19 Nov 2009

In addition to this comprehensive company profile, Morningstar offers in-depth analyst research and ratings on selected companies.

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1st Century Bancshares, Inc. is operates as a bank holding company for 1st Century Bank, N.A., a National Association (the bank). The bank is a full service commercial bank. The bank's primary focus is relationship banking to family and closely held middle market businesses, professional service firms, and high net worth individuals, real estate investors and entrepreneurs.

The bank also provides a range of banking services to meet the financial needs of the local residential community, with an orientation mainly directed toward owners and employees of its business client base. The bank's goal is to deliver the most responsive and adaptive depository and lending products and services to its clientele.

The bank's product offerings are organized into the following segments: Loans - Business and personal lines of credit and term loans; Tenant improvement and equipment financing; Bridge and/or specific purpose loans; Commercial, industrial and multi-family real estate lending; Personal home equity loans and lines of credit; and Credit cards for business and personal use; Deposits - Business checking, money market and certificates of deposit; Personal checking, money market and certificates of deposits; Attorney-Client trust accounts; Trust accounts; Cash management and on-line banking; and Debit cards.

The general market area it serves is loosely defined as La Cienega Boulevard to the east, the Santa Monica Mountains to the north, the Pacific Ocean to the west and the Los Angeles International Airport to the south.

1st Century Bancshrs Inc FCTY

Sales USD Mil 12 **Mkt Cap USD Mil** 35 **Industry** Regional - Pacific Banks **Sector** Financial Services

1st Century Bancshares, Inc. is a holding company for 1st Century Bank, N.A. The bank offers commercial banking services in California. It offers standard deposit and lending products for individual, corporate, entrepreneurial, and real estate investors.

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 Los Angeles, CA 90067
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 Website: <http://www.1stcenturybank.com>

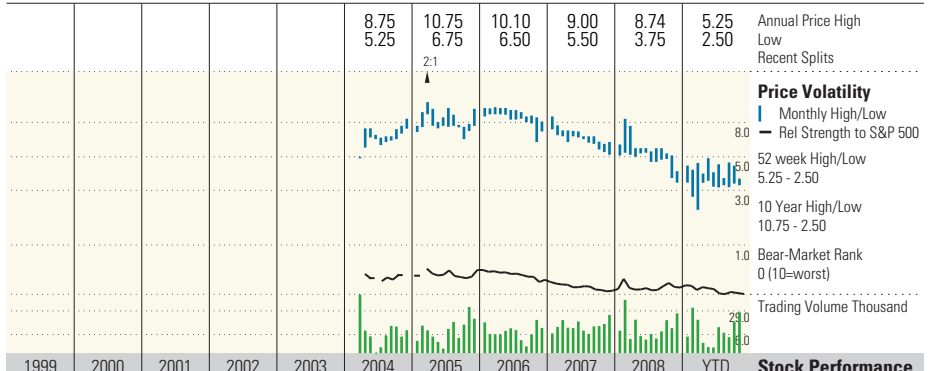
Growth Rates Compound Annual					
	1 Yr	3 Yr	5 Yr	10 Yr	
Revenue %	13.2	33.0	—	—	
Operating Income %	—	—	—	—	
Earnings/Share %	—	—	—	—	
Dividends %	—	—	—	—	
Book Value/Share %	—	—	—	—	
Stock Total Return %	-25.0	-24.2	-14.1	—	
+/- Industry	-10.2	2.2	-1.0	—	
+/- Market	-60.8	-16.3	-12.8	—	

Profitability Analysis				
	Current	5 Yr Avg	Ind	Mkt
Return on Equity %	-11.3	-3.2	-13.0	15.1
Return on Assets %	-2.4	-0.8	-1.2	5.9
Revenue/Employee USD K	278.9	269.6	—	871.2
Compensation Exp/Rev	0.4	0.8	—	—
Operating Margin %	—	—	—	14.4
Net Margin %	-53.3	-55.0	-25.9	6.6
Free Cash Flow/Rev %	23.8	—	—	0.0

Financial Position		
	12-08 USD Mil	09-09 USD Mil
Loans (Gross)	200	—
Less: Allowances	5	—
Net Loans	195	183
Securities	51	43
Trading Assets	—	—
Intangibles	—	—
Other	13	32
Total Assets	259	258
Deposits	154	189
Short-Term Debt	—	—
Long-Term Debt	47	17
Other	1	1
Total Liabilities	202	207
Preferred Stock	0	0
Total Equity	57	51

Valuation Analysis				
	Current	5 Yr Avg	Ind	Mkt
Price/Earnings	—	—	—	20.7
Forward P/E	—	—	—	16.4
Price/Free Cash Flow	12.2	—	—	18.0
Dividend Yield %	—	—	2.1	2.1
Price/Book	0.7	—	0.9	2.2
Price/Sales	2.9	14.9	1.6	1.2
PEG Ratio	—	—	—	1.8

Morningstar Rating — **Last Price** 3.75 **Fair Value** — **Uncertainty** — **Economic Moat™** — **Stewardship Grade** —
 per share prices in USD



1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	YTD	Stock Performance
—	—	—	—	—	23.2	-13.5	-28.5	-30.8	-9.6	—	Total Return %
—	—	—	—	—	20.2	-27.1	-32.0	7.7	-30.8	—	+/- Market
—	—	—	—	—	19.7	-24.3	1.3	-0.9	14.0	—	+/- Industry
—	—	—	—	—	83	94	82	59	41	35	Dividend Yield %
—	—	—	—	—	83	94	82	59	41	35	Market Cap USD Mil

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TTM	Financials
—	—	—	—	—	1	5	9	10	11	11	Net Interest Inc USD Mil
—	—	—	—	—	0	0	0	1	1	1	Fee Income
—	—	—	—	—	—	—	—	—	—	—	Oper Income USD Mil
—	—	—	—	—	-3	-2	0	3	-2	-6	Net Income USD Mil
—	—	—	—	—	-0.53	-0.31	0.01	0.28	-0.15	-0.69	Earnings Per Share USD
—	—	—	—	—	0.00	0.00	0.00	0.00	0.00	0.00	Dividends USD
—	—	—	—	—	5	9	9	10	9	9	Shares Mil
—	—	—	—	—	—	—	—	—	5.84	5.48	Book Value Per Share USD
—	—	—	—	—	86	162	201	224	259	258	Assets USD Mil
—	—	—	—	—	22	53	54	59	57	51	Total Equity USD Mil
—	—	—	—	—	—	-34	-1	-2	0	3	Free Cash Flow

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TTM	Profitability
—	—	—	—	—	-3.3	-1.8	0.1	1.4	-0.6	-2.4	Return on Assets %
—	—	—	—	—	-13.1	-5.9	0.3	5.2	-2.6	-11.3	Return on Equity %
—	—	—	—	—	—	-44.5	1.7	28.0	-12.9	-53.3	Net Margin %
—	—	—	—	—	0.01	0.04	0.05	0.05	0.05	0.05	Asset Turnover
—	—	—	—	—	4.0	3.0	3.7	3.8	4.5	5.1	Financial Leverage

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	09-09	Financial Health
—	—	—	—	—	33	85	126	170	195	183	Net Loans USD Mil
—	—	—	—	—	—	—	—	2	47	17	Long-Term Debt USD Mil
—	—	—	—	—	52	81	115	161	154	189	Deposits USD Mil

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TTM	Valuation
—	—	—	—	—	—	—	—	21.4	—	—	Price/Earnings
—	—	—	—	—	—	—	—	1.3	—	—	P/E vs. Market
—	—	—	—	—	36.5	16.7	11.6	6.0	3.5	2.9	Price/Sales
—	—	—	—	—	—	—	—	—	0.7	0.7	Price/Book

Quarterly Results						
Revenue USD Mil	Dec 08	Mar 09	Jun 09	Sep 09		
Most Recent Period	3.0	3.0	2.9	2.8		
Prior Year Period	2.8	2.8	3.0	3.0		
Rev Growth %	Dec 08	Mar 09	Jun 09	Sep 09		
Most Recent Period	6.4	4.6	-1.0	-4.7		
Prior Year Period	20.6	16.9	18.0	12.1		
Earnings Per Share USD	Dec 08	Mar 09	Jun 09	Sep 09		
Most Recent Period	-0.19	0.01	0.01	-0.50		
Prior Year Period	0.20	0.02	0.01	0.01		

Industry Peers by Market Cap				
	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
1st Century Bancshrs	35	12	—	-11.3
Bank of Hawaii Corpo	2167	656	15.2	17.0
City National Corpor	1950	819	137.0	1.5

Major Fund Holders		
		% of shares
Lotsoff Capital Mgmt Micro Cap		0.06
Vanguard Extended Market Idx		0.03

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.



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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
ROTHENBERG ALAN I	Chairman Of Board,Chief Executive Officer,Director	204,366	16 Nov 2009	-
DINAPOLI JASON PHILIP	CCO,President,Director	194,695	15 May 2009	-
BROOKS DAVE	Director	110,100	08 Jun 2009	-
GELLER MARSHALL S	Director	91,000	15 Nov 2008	-
PRESSMAN BARRY D.	Director	76,000	15 Nov 2008	-
KAWAMOTO DAN TOSHIO	Chief Financial Officer,Executive Vice President	73,094	01 Jun 2009	-
WOLFF LEWIS	Director	60,250	15 Nov 2008	-
ANDERSON WILLIAM S.	Director	51,000	15 Nov 2008	-

*Report date represents the date on which the owner's common shares held was audited.

Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Lotsoff Capital Mgmt Micro Cap	Q	0.06	0.06	0	31 Aug 2009
Vanguard Extended Market Idx	QQQ	0.03	0.00	2	30 Jun 2009

Concentrated Holders

NA	NA	NA	NA	NA
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Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
Vanguard Extended Market Idx	QQQ	0.03	0.00	2	30 Jun 2009

Top 5 Sellers

NA	NA	NA	NA	NA
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Industry Focus: US Regional Banks

Our Outlook for Regional Banks

01 June 2009

Jim Sinegal
Stock Analyst

A new normal or
back to the future?

Following the conclusion of the Supervisory Capital Assessment Program stress tests and the resulting infusions of new capital into many banks, investors' focus has shifted from the banks' ability to survive the current downturn to their potential earnings power on the other side. Some sources of profits, such as securitization, already appear to be relics of the distant past. Similarly, excessive leverage is unlikely to return for at least a decade, and the need for major changes in the regulatory system is painfully obvious. Although the specific changes to come are difficult to predict, we think some helpful generalizations can be made after a simple examination of banking industry dynamics.

Competition Is Here to Stay

In our opinion, regional banking is very much a commodity industry. Competition is generally intense, and there are few barriers to entry, aside from the approval of regulators. While financial innovations like CDOs, credit derivatives, and other products temporarily boosted profitability, nothing prevented industry participants from competing away excess profits resulting from these new products--in fact, a strong case can be made that competitive forces led to the demise of several financial companies and virtually the entire "shadow banking" system. This comes as no surprise--any student in a freshman microeconomics course knows that excess profits unprotected by an economic moat will eventually be competed away. Similarly, when industry profits decrease below cost of capital, firms will exit through failure, acquisition, or other means. We therefore believe profits across the banking industry should once again approximate costs of capital once the crisis is resolved.

As in all commodity industries, companies that excel at controlling costs--operating, credit, and funding--should be able to continue earning excess profits. Wells Fargo's WFC extremely low cost of deposits is a perfect example

of this, as is the company's history of superior underwriting. In other cases, banks benefit from high-return businesses other than banking. PNC Financial PNC has a profitable fund servicing business, US Bancorp USB owns a payment processing operation, and both have profitable wealth management arms. The low capital requirements of these service businesses tend to boost overall returns as well, and their relative stability helps to keep these banks from venturing too far afield in search of higher returns. It's therefore not surprising that these narrow-moat banks have fared better than most in recent months. We don't believe the advantages developed by these companies over many years are likely to disappear anytime soon, and we expect that these banks are likely to continue producing returns well in excess of their cost of capital.

Regulation Will Not Affect All Participants Equally

Much has been made of the prospects for increased regulation of the banking industry, and for good reason. Lax regulation of subprime mortgages, derivatives, and other areas of the financial system no doubt contributed to the mess plaguing the financial system.

Some industry observers have put forth the possibility that banking could begin to resemble a utility in the future, rather than the profitable growth industry it has been over the past few decades. In our opinion, this comparison is tenuous at best. As Josh Peters, equities strategist and editor of Morningstar DividendInvestor points out in "The Ultimate Dividend Playbook", utilities are naturally endowed with a substantial economic moat. In most cases, a particular utility is the sole supplier to a geographic area. Additionally, utilities are capital intensive, creating a sizable barrier to entry. It should be obvious that the banking business has neither of these features. Utility regulation is meant to limit profitability and protect customers--the banking industry suffered from the opposite problem. It is now obvious that the banking sector's problem was not excess returns, but in fact the inability to generate acceptable returns without taking on unacceptable risk.

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Industry Focus: US Regional Banks

Furthermore, any attempts by regulators to control pricing in the banking industry are likely to end in disaster. On the other hand, regulation meant to reduce leverage and excessive risk-taking is almost a certainty. In assessing the effects of this change on a particular bank, it is important to identify the source of past returns. In the case of banks like Flagstar Bancorp FBC, excessive leverage and overreliance on new financial products undoubtedly were the factors responsible for the 20%-plus returns on equity it achieved earlier in the decade. However, Wells Fargo was earning 20% returns on equity in the 1980s, long before irrational exuberance took hold across the lending industry, and the superior economic characteristics of the business outlined above are still in place. In our opinion, banks like Wells are therefore less likely to suffer from a regulatory crackdown.

Furthermore, as leverage is reduced across the industry, the irresistible forces of competition will eventually drive industry returns back to an appropriate level, as firms react to the new operating environment. In fact, lending spreads are already the highest they have been in years, as rational competition has returned to the market. New regulatory policies could also benefit banks--higher capital and loan loss reserve requirements should help smooth the boom/bust cycle that periodically plagues the banking industry. Making the banking system safer will not necessarily reduce profitability--the pharmaceutical industry is heavily regulated for safety, yet quite profitable. Finally, regulators must also consider the second-order effects of overly harsh new requirements. If profitability is artificially limited, investors will be reluctant to provide the capital necessary to keep the financial system--and the economy--functioning. From a macroeconomic perspective, growth is likely to be muted as the economy deleverages, but how will the system recover if future growth and profitability are hampered by regulation?

It's Not Time to Swing for the Fences

The implications of the coming changes are most serious for the weakest banks. Those that struggled to achieve their

cost of capital during the boom years will face enormous pressures as the recession continues, and many will likely exit or be acquired at distressed prices, as assets are transferred to more productive uses. The mismanaged assets of Washington Mutual and National City are no doubt better off in the hands of J.P. Morgan Chase JPM and PNC, and we expect this trend to continue for some time. Banks that could not achieve satisfactory returns in the boom years will surely fare even worse without the tail winds provided by excessive leverage, perfect credit, and structured products. While a few of these weaker banks are likely to survive and perhaps experience a spectacular increase in stock price from current levels, we place these types of bets firmly in the category of speculation. Some of these players will surely not make it.

Stick to the High Ground, and Focus on Moats

On the other hand, the strongest regional and superregional banks--those with established economic moats--could benefit from the changes to come. The ability to cheaply acquire assets and market share from weakened or failed competitors could result in a nice boost to short-term growth, and the reputational benefits from passing through the crisis relatively unscathed could last for a long time, further strengthening competitive advantages where they already exist. Though Warren Buffett popularized the concept of economic moats, our own research also suggests that moats are a key factor in achieving investment success. In a highly competitive industry like banking, where truly durable competitive advantages are rare, moats are often even more important. For this reason, we recommend that investors focus their attentions on banks with narrow or wide moats and strong management teams, leaving the low-priced lottery tickets in the industry for others.