2008 Annual Report

Lighthouse Bank

Lighthouse Bank

Lighthouse Bank was founded by a group of local business owners and professionals who desired a local banking alternative. They envisioned a bank, singularly dedicated to the needs of Santa Cruz County, which provides a level of service and personal attention unavailable at any other financial institution.

We commenced operations on October 29, 2007 staffed with 18 banking professionals in our newly remodeled headquarters located Downtown Santa Cruz. We offer a full complement of business and personal banking services to serve professionals, small to medium sized businesses, and non-profit organizations in Santa Cruz County. Our services combine the latest in banking technology and convenience, coupled with traditional community bank values. We focus on developing banking relationships that are tailored to meet the individual needs of each client. We value the trust our clients place in us, and recognize that they make our business possible.

We invite you to visit us and experience premier local banking at Lighthouse Bank.

A Letter To Our Shareholders

To our Shareholders, Employees, Clients and Community,

On behalf of the Board of Directors and Management of Lighthouse Bank, we present our financial results from inception to December 31, 2008. We are pleased to report that, even in the midst of a tumultuous economic climate, our bank experienced significant growth during our first fourteen months of operations. Since commencing for business in late 2007, total deposits have grown to $48.6 million, and total loans to $42.2 million. We ended the year with total assets of $65 million. Our results continue to be in line with projections established prior to opening, and our consistent growth moves us closer to profitable operations. The financial results are included in detail later in this report.

At Lighthouse Bank, we believe we have the vision to see beyond the traditional parameters of the banking industry. Our directors, officers and staff work every day to support our mission that Lighthouse Bank will be the financial services provider of choice for businesses and individuals in the Santa Cruz County Community. We continually do our utmost to create value for our clients and employees; to provide meaningful support to the community; and prudently invest our capital to achieve profitable and sustainable growth to improve shareholder value. Our Bank will prosper by developing and sustaining mutually beneficial long-term relationships with our ongoing commitment to consistently provide quality, value-added financial products with service that always exceeds expectations.

Lighthouse Bank is in business to serve our community as an excellent corporate citizen and to provide to our shareholders a superior return on their investment. As such, we look to maximize sustainable earnings over the long term by operating as efficiently as possible. Accordingly, our business model was not designed for the expansion into several geographic locations, but rather to focus on operating more efficiently and effectively from one central location. While our competitors focus on expansion; we concentrate on providing "above and beyond" service to create and nurture meaningful long-term partnerships. As many banks move away from traditional banking services, we strive to continually deliver "human touch" banking. Our decision makers work collaboratively in close proximity creating a competitive advantage in our ability to provide more responsive service.

We want you to view your investment in Lighthouse Bank not as just another stock investment; but rather, as a partner in a local financial services business that will make a difference in and have a positive effect on our

John C. Burroughs
Chairman of the Board

Richard G. Hofstetter
President and CEO

A Letter To Our Shareholders

community. We remain committed to a business model which rewards our shareholders, employees, and community while building an organization that meets the financial needs of our marketplace and continually looks to develop new opportunities.

As we enter 2009, we are witnessing an environment of unprecedented change within our economy. The banking industry as a whole has faced shrinking yields, a decline in the housing market, decreased real estate values, increased loan delinquencies, and issues related to sub-prime mortgages. Mainstream media has brought increased public scrutiny to the irresponsible financial practices which have run rampant throughout the industry. Unexpectedly, this has created a unique opportunity for Lighthouse Bank. Our "back-to-basics" business strategy is now proving fundamental to success for financial institutions at large.

On both a local and national level, we will likely see higher unemployment, and negative economic growth in 2009. Fortunately, we are well positioned to operate effectively notwithstanding these conditions. Expense control and prudent lending will be more important than ever. We are pleased to see that real estate values seem to have moderated from the significant declines witnessed in 2008. Price stability, even at lower levels, bodes well for a positive economic turning point late this year or early in 2010. During this period it will be our challenge and obligation to move our Bank to the point of profitability. We are optimistic that our conservative practices and commitment to quality products and service will move us progressively forward.

Lighthouse Bank has the skills, the resources, and the vision to seek opportunities even in the midst of difficult times, providing lasting and long-term value for you, our shareholders. Our long-term success is predicated in large part on your continued support and referrals as a source of new business. If you are not yet a client of Lighthouse Bank, or you know someone that would benefit from our exceptional service, we would appreciate the opportunity to speak with you.

On behalf of the directors, officers and staff, please accept our appreciation for your investment and continued involvement. We would welcome the opportunity to tell you more about our accomplishments and our plans at our annual shareholder meeting at the Museum of Art and History at the McPherson Center on Thursday, May 21, 2009 at 4:00 P.M.

Sincerely,

John C. Burroughs

John C. Burroughs
Chairman of the Board

Richard G. Hofstetter
President and CEO

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Lighthouse Bank

We have audited the balance sheets of Lighthouse Bank as of December 31, 2008, and 2007 and the related statements of operations, changes in stockholders' equity and other comprehensive income, and cash flows for the period from October 29, 2007 (date of inception) through December 31, 2007, and for the year ended December 31, 2008. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lighthouse Bank as of December 31, 2008 and 2007 and the results of its operations and its cash flows for the period from October 29, 2007 (date of inception) through December 31, 2007, and for the year ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

Vavrinek Trine Day + Co. LLP

Palo Alto, California
March 12, 2009

260 Sheridan Avenue, Suite 440 Palo Alto, CA 94306 Tel: 650.462.0400 Fax: 650.462.0500 www.vtdcpa.com

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STATEMENTS OF CONDITION

	December 31, 2008	December 31, 2007
ASSETS		
Cash and due from banks (notes 1, 11 and 12)	$ 1,919,406	$ 483,155
Federal funds sold	4,950,000	19,154,543
Total cash and cash equivalents	6,869,406	19,637,698
Interest bearing deposits in other financial institutions	12,205,000	-
Investment securities (notes 1, 2 and 12):		
Securities held-to-maturity	-	100,181
Securities available-for-sale, at estimated fair value	3,671,886	-
Total investment securities	3,671,886	100,181
Loans receivable (notes 1, 3, 11 and 12):		
Gross loans	42,239,935	6,391,813
less deferred loan fees, net of costs	251,326	60,217
less reserve for loan losses	971,000	80,000
Net loans	41,017,609	6,251,596
Premises and equipment, net (notes 1, 4 and 11)	593,973	685,449
Accrued interest receivable	189,027	21,484
Federal Home Loan Bank and bankers' bank stock, at cost	278,700	-
Other assets	130,051	97,673
TOTAL ASSETS	$ 64,955,652	$ 26,794,081
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits (note 12):		
Noninterest-bearing demand deposits	$ 10,049,217	$ 2,547,352
Interest-bearing demand deposits	2,740,038	702,941
Savings and money market deposits	22,268,031	4,522,836
Time deposits (note 6)	13,588,436	1,204,131
Total deposits	48,645,722	8,977,260
Other liabilities:		
Accrued interest payable	23,505	2,069
Other liabilities	110,897	46,085
Total liabilities	48,780,124	9,025,414
SHAREHOLDERS' EQUITY:		
Common stock, no par value, 10,000,000 shares authorized: issued and outstanding; 1,853,028 shares at December 31, 2008 and at December 31, 2007	18,484,627	18,484,627
Additional paid-in-capital	487,856	121,148
Accumulated (deficit)	(2,847,533)	(837,108)
Accumulated other comprehensive income (note 1)	50,578	-
Total shareholders' equity	16,175,528	17,768,667
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 64,955,652	$ 26,794,081

See accompanying notes to the Financial Statements

STATEMENTS OF OPERATIONS

	Year Ended December 31, 2008	Period from October 29, 2007 (inception) to December 31, 2007
INTEREST INCOME:		
Interest and fees on loans	$ 2,297,636	$ 47,147
Investment securities	99,042	300
Federal funds sold and other interest income	365,449	164,338
Total interest income	2,762,127	211,785
INTEREST EXPENSE:		
Deposits (note 6) and other borrowed funds (note 7)	630,879	27,168
Net interest income before provision for loan losses	2,131,248	184,617
Provision for loan losses (notes 1 and 3)	891,000	80,000
Net interest income after provision for loan losses	1,240,248	104,617
NON-INTEREST INCOME:		
Service charges on deposit accounts	42,801	714
Other non-interest income (note 13)	16,120	1,311
Total non-interest income	58,921	2,025
NON-INTEREST EXPENSE:		
Salaries and employee benefits	2,183,656	393,812
Occupancy	273,049	46,461
Furniture and equipment	232,989	35,400
Marketing and business development	59,321	13,508
Item and data processing	98,615	8,406
Professional services	83,571	18,469
Other operating expenses (note 13)	377,593	127,625
Total non-interest expense	3,308,794	643,681
Loss before income taxes	(2,009,625)	(537,039)
Income tax expense (notes 1 and 5)	800	-
Net loss	$ (2,010,425)	$ (537,039)
Loss per share (note 1):		
basic	$ (1.08)	$ (0.29)
diluted	$ (1.08)	$ (0.29)

See accompanying notes to the Financial Statements

STATEMENT OF SHAREHOLDER'S EQUITY

Period from October 29, 2007 (inception) to December 31, 2008

	Common Shares	Amount	Additional Paid In Capital	Accumulated Deficit	Other Comprehensive Income	Total Shareholders' Equity
Balance at October 29, 2007 (inception)	-	$ -	$ -	$ -	$ -	$ -
Pre-opening costs, net (note 1)	-	-	-	(300,069)	-	(300,069)
Proceeds from stock offering, net of offering expenses of $45,653	1,853,028	18,484,627	-	-	-	18,484,627
Stock-based compensation	-	-	121,148	-	-	121,148
Net loss	-	-	-	(537,039)	-	(537,039)
Balance at December 31, 2007	1,853,028	18,484,627	121,148	(837,108)	-	17,768,667
Stock-based compensation	-	-	366,708	-	-	366,708
Net loss	-	-	-	(2,010,425)	-	(2,010,425)
Unrealized gain on securities available-for-sale, net of tax of $0	-	-	-	-	50,578	50,578
Balance at December 31, 2008	1,853,028	$18,484,627	$487,856	$(2,847,533)	$ 50,578	$ 16,175,528

See accompanying notes to the Financial Statements

STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2008	Period from October 29, 2007 (inception) to December 31, 2007
OPERATING ACTIVITIES:		
Net loss	$ (2,010,425)	$ (537,039)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization of premises and equipment	173,853	26,604
Provision for loan losses	891,000	80,000
Net amortization/accretion of investment discounts and premiums	1,490	9
Increase in deferred loan fees, net of costs	191,109	60,217
Stock-based compensation	366,708	121,148
Net increase in:		
Accrued interest receivable	(167,543)	(21,484)
Other assets	(32,378)	(97,673)
Net increase in:		
Accrued interest payable	21,436	2,069
Other liabilities	64,812	46,085
Net cash (used in) operating activities	(499,938)	(320,064)
INVESTING ACTIVITIES:		
Held-to-maturity securities:		
Principal repayments	100,000	-
Purchases	-	(100,190)
Available-for-sale securities:		
Principal repayments	36,118	-
Purchases	(3,658,736)	-
Purchase of Federal Home Loan Bank stock	(8,700)	-
Purchase of bankers' bank stock	(270,000)	-
Net (increase) in time deposits with other banks	(12,205,000)	-
Net increase in loans	(35,848,122)	(6,391,813)
Purchase of premises and equipment	(84,112)	(712,053)
Disposal of equipment	1,736	-
Net cash used in investing activities	(51,936,816)	(7,204,056)
FINANCING ACTIVITIES:		
Net proceeds from sale of common stock	-	18,484,627
Pre-opening costs	-	(300,069)
Increase in:		
Demand deposits	9,538,962	3,250,293
Savings and money market deposits	17,745,195	4,522,836
Time deposits	12,384,305	1,204,131
Net cash provided by financing activities	39,668,462	27,161,818
Net (decrease) increase in cash and cash equivalents	(12,768,292)	19,637,698
Cash and cash equivalents at beginning of period	19,637,698	-
Cash and cash equivalents at end of period	$ 6,869,406	$ 19,637,698
Supplemental Disclosures of Cash Flow Information		
Total interest paid	$ 609,443	$ 25,099
Total income taxes paid	800	-

See accompanying notes to the Financial Statements

NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

Note 1. Summary of Significant Accounting Policies

Description of the Business - Lighthouse Bank (the Bank) is a California state chartered bank which offers a full range of commercial and personal banking services to residents and businesses in Santa Cruz County, California, through its office in Santa Cruz, California. The Bank was incorporated on June 13, 2007 as Lighthouse Bank (In Organization) and commenced banking operations on October 29, 2007 (inception), upon receipt of final approval from the California Department of Financial Institutions and the issuance of deposit insurance by the Federal Deposit Insurance Corporation. The Bank is subject to competition from other financial institutions. Additionally, the Bank is subject to regulations by the above referenced regulatory agencies and undergoes periodic examinations by those agencies.

The majority of the Bank's business is done with customers located in Northern California, specifically in Santa Cruz and adjacent counties. The Bank has 48 credit arrangements that are collateralized by real estate. Generally, the Bank maintains loan-to-value ratios no greater than 65 percent on commercial and multi-family real estate loans and no greater than 70 percent on single-family residential real estate loans. At December 31, 2008, the Bank had loans outstanding of approximately $40,158,000 that were collateralized by real estate. There were no other significant loan concentrations.

Summary of Significant Accounting Policies - The accounting and reporting policies of the Bank conform to generally accepted accounting principles in the United States of America and prevailing practices within the banking industry. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported accounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The following is a summary of significant policies used in the preparation of the accompanying financial statements.

Cash and Cash Equivalents - For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold and highly liquid debt instruments with an original maturity of 90 days or less. The Bank had no cash reserve requirements at December 31, 2008 or at December 31, 2007.

Investment Securities - Marketable investment securities have consisted of U.S. Government Agency and Agency mortgage-backed securities. At the time of purchase, the Bank designates securities as either “held-to-maturity” or “available-for-sale” based on its investment objectives, operational needs and intent. The Bank does not engage in securities trading activities.

Held-to-maturity securities are recorded at amortized cost, adjusted for amortization or accretion of premiums or discounts. Available-for-sale securities are recorded at fair value with unrealized holding gains and losses, net of the related tax effect, reported as a separate component of shareholders’ equity until realized. During the year ended December 31, 2008, there were no transfers between classifications. Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to yield using the effective interest method. Dividend and interest income are recognized on an accrual basis. Realized gains and losses for securities classified as available-for-sale and held-to-maturity are included in earnings and are derived using the specific identification method for determining the cost of securities sold.

A decline in the market value of any available-for-sale security below cost that is deemed other than temporary, results in a charge to earnings and the establishment of a new cost basis for the security. No such declines have occurred.

Loans - Loans are stated at the amount of unpaid principal, net of deferred fees, and reduced by an allowance for loan losses. Accrual of interest is discontinued on loans which are more than 90 days delinquent or when Management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful unless the loans are well-secured and in the process of collection. When a loan is placed on non-accrual status, all interest previously accrued but not collected is charged against current period income. Income on such loans is then recognized only to the extent that cash is received and where the future collection of principal is probable.

Non-refundable fees and estimated loan origination costs are deferred net and are amortized to income over the expected life of the loan using a method that approximates the level yield method.

Generally, a non-accrual loan will be restored to an accrual status when none of its principal and interest is past due, when prospects for future contractual payments are no longer in doubt and when the loan becomes well-secured and in the process of collection. The Bank had one non-accrual loan totaling $2,857,976 at December 31, 2008 and no non-accrual loans at December 31, 2007.

Impaired Loans - In accordance with FAS No. 114, a loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement, including scheduled interest payments. Generally, the Bank identifies loans to be reported as impaired when such loans are in non-accrual status or are considered troubled debt restructurings due to the granting of a below-market rate of interest or a partial forgiveness of indebtedness on an existing loan. Any allowance on impaired loans is generally based on one of three methods. 1) present value of expected future cash flows discounted at the loan's effective interest rate or, 2) as a practical expedient, at the loan's observable market price or 3) the fair value of the collateral if the loan is collateral dependent. Income recognition on impaired loans is consistent with the policy for income recognition on non-accrual loans described above.

Allowance for Loan Losses - The allowance for loan losses is established through periodic provisions for possible loan losses. Loans are charged against the allowance for loan losses when Management believes that the collectability of the principal is unlikely. The allowance is a reserve to provide for possible losses on existing loans that may become uncollectable, based on evaluations of the collectability of loans and prior loan loss experience. The evaluations include consideration of changes in the nature and volume of the loan portfolio, overall portfolio quality, a review of specific problem loans, and current economic conditions that may affect the borrowers' ability to pay.

Management believes that the allowance for loans losses is adequate. While Management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgment of information available to them at the time of their examination.

Premises & Equipment - Premises and equipment are stated at cost less accumulated depreciation and amortization and include additions that materially extend the useful lives of existing premises and equipment. All other maintenance and repair expenditures are expensed as incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, three to five years, and are expensed to non-interest expense. Leasehold improvements are amortized over the initial term of the lease.

Income Taxes - Deferred tax assets and liabilities are recognized at currently enacted rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized and settled. Deferred income taxes are provided on income and expense items recognized in different periods for financial statement and tax reporting purposes. As the Bank has not reached a stage of sustained profitability, any net deferred tax benefit arising from temporary differences between financial statement and tax reporting has been offset by a valuation allowance resulting in no net deferred tax asset being recorded as December 31, 2008.

The Bank has adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48"). 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 recognition threshold and measurement standard for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return. In addition, FIN 48 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The provisions of FIN 48 have been applied to all tax positions of the Bank as of inception. The adoption of FIN 48 did not have a material impact on the Bank's financial position, results of operations or cash flows for the periods presented.

Interest expense associated with unrecognized tax benefits is classified as income tax expense in the statement of income. Penalties associated with unrecognized tax benefits are classified as income tax expense in the statement of income.

Stock-Based Compensation – The Bank has implemented SFAS No. 123 (revised 2004) (SFAS No. 123R), Share-Based Payments, which addresses the accounting for stock-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. The Bank uses the Black-Scholes-Merton ("BSM") option-pricing model to determine the fair-value of stock-based awards under SFAS No. 123R, consistent with that used for pro forma disclosures under SFAS No. 123, Accounting for Stock-Based Compensation.

No stock-based compensation costs were capitalized as part of the cost of an asset as of December 31, 2008. As of December 31, 2008, $672,289 of total unrecognized compensation costs related to stock options are expected to be recognized over a weighted-average period of approximately 2 years. The total fair value of shares vested during the year ended December 31, 2008 and for the period of October 29, 2007 (inception) to December 31, 2007 was $415,851 and $60,030 respectively.

The adoption of FASB 123R increased reported loss per share by $0.20 and $0.07 for the year ended December 31, 2008 and the period from October 29, 2007 (inception) through December 31, 2007, respectively.

Earnings (Loss) Per Share - SFAS No. 128, *Measurement of Earnings per Share*, establishes standards for computing and reporting basic and diluted earnings (loss) per share. Basic earnings (loss) per share is calculated by dividing net earnings (loss) for the period by the weighted-average common shares outstanding for that period. There is no adjustment to the number of outstanding shares for potential dilutive instruments, such as stock options. Diluted earnings (loss) per share takes into account the potential dilutive impact of such instruments and uses the average share price for the period in determining the number of incremental shares to add to the weighted-average number of shares outstanding. Due to the operating losses incurred there are no potentially dilutive securities at December 31, 2008 or December 31, 2007. The following table summarizes the weighted average shares outstanding used to compute earnings per share:

	December 31,	
	2008	2007
Net loss, as reported	$ (2,010,425)	$ (537,039)
Loss per share, basic and diluted	$ (1.08)	$ (0.29)
Weighted average shares outstanding, basic and diluted	1,853,028	1,853,028

Comprehensive Income - SFAS No. 130, “Reporting Comprehensive Income” requires that all items recognized under accounting standards as components of comprehensive earnings be reported in an annual financial statement that is displayed with the same prominence as other annual financial statements. This Statement also requires that an entity classify items of other comprehensive earnings by their nature in the annual financial statements. Other comprehensive earnings include unrealized gains and losses, net of tax, on marketable securities classified as available-for-sale. The Bank had accumulated other comprehensive income totaling $50,578, net of tax, at December 31, 2008.

	2008	2007
Net loss	$ (2,010,425)	$ (537,039)
Unrealized gain on securities available for sale	50,578	-
Total comprehensive loss	$ (1,959,847)	$ (537,039)

Pre-Opening Expenses - Prior to receipt of approval from the California Department of Financial Institutions to commence banking operations, certain pre-opening expenses were incurred by the Bank’s organizers. Such expenses were funded solely through organizer contributions. Upon commencement of banking operations on October 29, 2007, the Bank applied to the California Department of Financial Institutions for approval to reimburse the organizers for the pre-opening expenses. The Bank made such reimbursement, amounting to approximately $300,000, subsequent to receiving such approval. The net pre-opening expenses were comprised of the following:

Pre-opening expenses:		
Consulting services	$	337,217
Legal fees		24,132
Filing fees		7,500
Business development and promotion		13,754
Occupancy		37,079
Other		31,815
Total pre-opening expenses		451,496
Pre-opening income:		
Interest income		151,427
Net pre-opening expenses	$	300,069

Recent Accounting Pronouncements - In September 2006, the Financial Accounting Standards Board issued SFAS No. 157, "Fair Value Measurement", a standard that provides enhanced guidance for using fair value to measure assets and liabilities. The standard also responds to investors' requests for expanded information about the extent to which a company measures assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. Under the standard, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. The standard clarifies that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, the standard establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the reporting entity's own data. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. We adopted SFAS No. 157 on January 1, 2008, and the adoption of SFAS No. 157 did not have a material impact on our financial condition or operating results.

In February 2007, the Financial Accounting Standards Board issued SFAS No. 159, "The Fair Value Option for Financial Assets and Liabilities" – Including an amendment of FASB No. 115. This Standard permits, but does not require, entities to chose to measure many financial instruments and certain other times at fair value. The Statement was intended to expand the use of fair value measurement, which is consistent with the Board's long-term measurement objectives for accounting for financial instruments. The Statement was effective for fiscal years beginning after November 15, 2007. We did not adopt any of the fair value measurement options afforded by this Statement.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141(R)), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. SFAS No. 141(R) is effective for fiscal years beginning on or after December 15, 2008. Earlier adoption is prohibited. The adoption of this standard is not expected to have any material effect on the Bank's results of operations or financial position.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interest in Consolidated Financial Statements, and Amendment of ARB No. 51, which will change the accounting and reporting for minority interests to be recharacterized as noncontrolling interests and classified as a component of equity within the consolidated balance sheets. SFAS No. 160 is effective as of the beginning of the first fiscal year beginning on or after December 15, 2008. Earlier adoption is prohibited. The adoption of this standard is not expected to have a material effect on the Bank's results of operations or financial position.

In March 2008, the FASB issued SFAS No. 161, Disclosures About Derivative Instruments and Hedging Activities, an Amendment of SFAS No. 133. SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133 for derivative instruments and hedging activities. SFAS No. 161 requires qualitative disclosure about objectives and strategies for using derivative and hedging instruments, quantitative disclosures about fair value amounts of the instruments and gains and losses on such instruments, as well as disclosures about credit-risk features in derivative agreements. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The adoption of this standard is not expected to have a material effect on the Bank's results of operations or financial position.

Disclosure About Fair Value of Financial Instruments - SFAS No. 107 specifies the disclosure of the estimated fair value of financial instruments. The Bank's estimated fair value amounts have been determined by the Bank using available market information and appropriate valuation methodologies.

However, considerable judgment is required to develop the estimates of fair value. Accordingly, the estimates are not necessarily indicative of the amounts the Bank could have realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Although Management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since the balance sheet date and, therefore, current estimates of fair value may differ significantly from the amounts presented in the accompanying notes.

Note 2. Investment Securities

The following table summarizes Lighthouse Bank's securities held-to-maturity and available-for-sale at December 31, 2008, and December 31, 2007:

December 31, 2008	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available-for-sale:				
U.S. Agency MBS's	$ 3,621,308	$ 54,977	$ (4,399)	$ 3,671,886
Total securities available for sale	$ 3,621,308	$ 54,977	$ (4,399)	$ 3,671,886
December 31, 2007				
Securities held-to-maturity:				
U.S. Agency Securities	$ 100,181	$ -	$ (118)	$ 100,063
Total securities held to maturity	$ 100,181	$ -	$ (118)	$ 100,063

The amortized cost and estimated fair value of investment securities at December 31, 2008 and December 31, 2007 by contractual maturity are shown below, except for mortgage-backed securities and other securities which are presented in total. Expected maturities on mortgage-backed securities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities available-for-sale		Securities held-to-maturity	
	Amortized	Estimated	Amortized	Estimated
December 31, 2008	Cost	Fair Value	Cost	Fair Value
Due in one year or less	$ -	$ -	$ -	$ -
Due after one year through five years	-	-	-	-
Due after five years through ten years	-	-	-	-
Mortgage-backed securities	3,621,308	3,671,886	-	-
Total	$ 3,621,308	$ 3,671,886	$ -	$ -
December 31, 2007				
Due in one year or less	$ -	$ -	$ 100,181	$ 100,063
Due after one year through five years	-	-	-	-
Due after five years through ten years	-	-	-	-
Mortgage-backed securities	-	-	-	-
Total	$ -	$ -	$ 100,181	$ 100,063

Investment securities in a temporary unrealized loss position as of December 31, 2008 are shown in the following table, based on the time they have been continuously in an unrealized loss position. There are no investment securities that have been in a temporary unrealized loss position for 12 months or longer:

	Less than 12 Months	
		Unrealized
December 31, 2008	Fair Value	Losses
Securities available-for-sale:		
U.S. Agency mortgage-backed securities	$ 668,166	$ 4,399

No investment securities were sold in 2008 or 2007. There were no investment securities required to be pledged to secure public deposits or for any other purposes, required or permitted by law, at December 31, 2008 and December 31, 2007.

Note 3. Loans

Loan maturity and rate sensitivity data (excluding loans on non-accrual) of the loan portfolio, in thousands, at December 31, 2008 and 2007 are as follows:

December 31, 2008

	Within One Year	One to Five Years	After Five Years	Total
Real estate and construction	$ 19,428	$ -	$ -	$ 19,428
Consumer, other	-	-	-	-
Commercial and revolving lines	1,869	7,226	10,859	19,954
	$ 21,297	$ 7,226	$ 10,859	$ 39,382
Loans at fixed interest rates	$ 16,971	$ 7,226	$ 10,859	$ 35,056
Loans at variable interest rates	4,326	-	-	4,326
	$ 21,297	$ 7,226	$ 10,859	$ 39,382

December 31, 2007

	Within One Year	One to Five Years	After Five Years	Total
Real estate and construction	$ 4,964	$ -	$ -	$ 4,964
Consumer, other	-	-	-	-
Commercial and revolving lines	74	133	1,221	1,428
	$ 5,038	$ 133	$ 1,221	$ 6,392
Loans at fixed interest rates	$ 1,332	$ 133	$ 1,221	$ 2,686
Loans at variable interest rates	3,706	-	-	3,706
	$ 5,038	$ 133	$ 1,221	$ 6,392

Changes in the allowance for loan losses were as follows:

	December 31, 2008	2007
Balance at beginning of year	$ 80,000	$ -
Provision for loan losses	891,000	80,000
Loan charge-offs	-	-
Recoveries of loan charge-offs	-	-
Balance at year end	$ 971,000	$ 80,000

	2008	2007
Net loan (recoveries) charge-offs as a percentage of average total loans	N/A	N/A

In general, the Bank would not recognize any interest income on loans that are classified as impaired. The following is a summary of the investment in impaired loans as of December 31, 2008, including the related allowance for loan losses and cash-basis income recognized. Also shown are loans on non-accrual and those that are past due and still accruing interest:

	As of December 31, 2008
Impaired Loans:	
Recorded investment in impaired loans	$ 2,857,976
Related allowance for loan losses	-
Average recorded investment in impaired loans	894,521
Interest income recognized for cash payments while impaired	-
Total loans on non-accrual	2,857,976
Total loans past due 90 days or more and still accruing interest	-

Note 4. Premises and Equipment

The following presents the cost of premises and equipment including leasehold improvements and the related accumulated depreciation and amortization at December 31, 2008 and December 31, 2007:

	December 31, 2008	December 31, 2007
Leasehold improvements	$ 291,813	$ 282,332
Furniture, fixtures and equipment	207,392	172,856
Software and capitalized data & item processing	127,363	89,700
Computer equipment	147,299	146,883
Automobile	20,282	20,282
Construction-in-progress	-	-
Total premises and equipment	794,149	712,053
Less accumulated depreciation and amortization	200,176	26,604
Premises and equipment, net	$ 593,973	$ 685,449

Depreciation and amortization expense of premises and equipment aggregated $173,853 for the year ended December 31, 2008 and $26,604 for the period from October 29, 2007 (inception) to December 31, 2007.

Note 5. Income Taxes

Deferred income taxes are the result of differences between income tax accounting and accounting principles generally accepted in the United States of America, with respect to income and expense recognition. The following is a summary of the components of the net deferred tax asset accounts as of December 31, 2008:

Pre-opening expenses	$ 114,000
Stock-based compensation	79,000
Operating loss carry-forwards	514,000
Loan loss reserve	323,000
Other	26,000
	1,056,000
Valuation allowance	(1,056,000)
Net deferred tax asset	$ -

The valuation allowance is necessary as the Bank has not generated earnings sufficient to support the recognition of the deferred tax asset. The federal operating loss carry-forwards will expire in 2027. The California operating loss carry-forwards will expire in 2017. The provision for income taxes is as follows for the year ended December 31, 2008 and for the period from October 29, 2007 (inception) to December 31, 2007:

	2008	2007
Current:		
Federal	$ -	$ -
State	800	-
Total current	$ 800	$ -
Deferred:		
Federal	$ -	$ -
State	-	-
Total deferred	$ -	$ -

Note 6. Time Deposits

The aggregate amount of time deposit accounts equal to or greater than $100,000 was $9,255,746 and $602,205 at December 31, 2008 and December 31, 2007, respectively. At December 31, 2008 the scheduled maturities for time deposits were as follows:

(Rounded to the nearest thousand)	
Due in 2009	$ 8,719
Due in 2010	537
	$ 9,256

Interest expense on time deposits of $100,000 or more was $194,514 and $3,119 in 2008 and 2007, respectively.

Note 7. Borrowed Funds

The Bank has obtained federal funds borrowing guidance lines with its correspondent banks in an aggregate amount of $5.5 million on an unsecured basis.

Note 8. Stock Options

The Bank has adopted a qualified stock option plan (the Plan) for employees, non-employee directors and Bank founders, under which a maximum of 555,908 shares of Bank's common stock may be issued. The Plan calls for the exercise prices of the options to be equal to or greater than the fair market value of the stock at the time of grant. Options granted to Bank founders who are not also Bank directors or Bank officers were fully vested upon the date of grant. All other options shares granted have annual vesting over the first three years of the option contract. All option contracts for founders who are not also Bank directors or Bank officers have expiration dates of ten years from the date of grant. All director and employee option contracts have expiration dates on the earlier of termination of service or 10 years from the date of grant.

The following is a summary of required disclosures relating to the Bank's stock option plan for the periods presented:

	Options Outstanding	Weighted Average Exercise Price
October 29, 2007 (inception)	-	-
Granted 2007	444,500	$ 10.00
Exercised 2007	-	-
Cancelled 2007	-	-
Balance at December 31, 2007	444,500	10.00
Granted 2008	5,000	11.80
Exercised 2008	-	-
Cancelled 2008	(12,500)	10.00
Balance at December 31, 2008	437,000	$ 10.02

Options Outstanding			Options Exercisable		
Number	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number	Weighted Average Contractual Life	Weighted Average Exercise Price
December 31, 2008:					
437,000	8.76 years	$10.02	159,330	8.75 years	$10.00

There was no aggregate intrinsic value of stock option awards outstanding and exercisable at December 31, 2008.

The number and weighted average grant date fair value of options granted is as follows for the period of October 29, 2007 (inception) to December 31, 2007 and for the year ended December 31, 2008:

	Number	Weighted Average Grant Date Fair Value
2007	444,500	$2.61
2008	5,000	$2.78

The weighted average assumptions used for 2007 and 2008 in determining the fair value of options granted are as follows:

	2008	2007
Expected life (yrs.)	6	6
Volatility	11.56%	11.56%
Risk free rate of return	3.85%	4.55%
Dividend yield	0.00%	0.00%

Note 9. 401(k) Employee Benefit Plan

All employees of the Bank are immediately, upon employment, eligible to participate in the Bank's 401(k) Plan which is a tax-deferred savings plan designed to assist employees in preparing for their retirement years. Employees may contribute to the Plan up to certain limits prescribed by the Internal Revenue Service. The Bank does not match employee contributions.

Note 10. Related Party Transactions

In the ordinary course of business, Bank policies allow the making of loans to directors, officers, principal shareholders and their associates on substantially the same terms, including interest rates, origination and commitment fees, and collateral, as comparable transactions with unaffiliated persons, and such loans do not involve more than the normal risk of collectability. The Bank had no loans and/or extensions of credit made to or guaranteed by the Bank's directors and officers and their related companies at December 31, 2008, and December 31, 2007.

Note 11. Restrictions, Commitments, Contingencies and Other Disclosures

Restrictions on Cash and Due from Banks. Lighthouse Bank is subject to Federal Reserve Act Regulation D which requires banks to maintain average reserve balances with the Federal Reserve Bank. Reserve requirements are offset by usable cash reserves. As of December 31, 2008 and December 31, 2007, Lighthouse Bank had no reserve requirement.

As compensation for check clearing and other services, compensating balances of approximately $10,000 were maintained with correspondent banks at December 31, 2008 and 2007. At times, the Bank maintained deposit amounts at corresponding banks that exceed federally insured limits. The Bank has not experienced any losses on amounts exceeding the insured limits.

Building Lease Commitments. The current operating lease for the Bank's 111 Mission Street office in Santa Cruz expires November 30, 2012, with an option to extend for three additional 5 year periods. The monthly lease payment for the Santa Cruz Office is presently $11,700 plus triple net expenses for taxes, insurance and maintenance and the lease payment is fixed at this amount during the initial term.

Minimum rental payments for future years under this lease are as follows at December 31, 2008:

2009	$ 140,400
2010	140,400
2011	140,400
2012	128,700
	$ 549,900

Building rent expense for the year ended December 31, 2008, was $140,400 and for the period from October 29, 2007 (inception) to December 31, 2007, was $24,532.

Loan Commitments. The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

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 many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on Management's credit evaluation. Collateral held varies but may include cash, securities, accounts receivable, inventory, property, plant and equipment, residential real estate and income-producing commercial properties.

Financial instruments whose contract amounts represent credit risk at December 31, 2008 and December 31, 2007 are as follows:

	December 31,	
	2008	2007
Commitments to extend credit	$ 11,147,839	$ 5,244,657
Total unfunded financial commitments	$ 11,147,839	$ 5,244,657

Legal Matters. At December 31, 2008, the Bank was not subject to any knows claims and/or lawsuits.

Note 12. Fair Value of Financial Instruments

In accordance with SFAS No. 157, the Bank groups its financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 – Valuations for assts and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury, other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The only assets or liabilities measured at fair value on the bank's balance sheet at December 31, 2008 are the investment securities classified as available for sale totaling $3,671,886. Fair value for this group is based on the Level 2 assumption.

The were no changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the year ended December 31, 2008.

The Bank may be required, from time to time, to measure certain other financial assets at fair value on a non-recurring basis in accordance with GAAP. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets. There were no assets measured at fair value on a non-recurring basis for the year ended December 31, 2008.

The following table presents the carrying amounts and estimated fair values of the Bank's financial instruments at December 31, 2008 and December 31, 2007. The fair value of financial instruments does not represent actual amounts that may be realized upon any sale or liquidation of the related assets or liabilities. In addition, these values do not give effect to discounts to fair value which may occur when financial instruments are sold in larger quantities. The fair values presented represent the Bank's best estimate of fair value using the methodologies discussed below.

The respective carrying values of certain on-balance-sheet financial instruments approximated their fair values. These financial instruments include cash and cash equivalents, interest-bearing deposits in other banks, banker's bank and Federal Home Loan Bank stock and demand and savings deposits. Carrying values were assumed to approximate fair values for these financial instruments as they are short term in nature and their recorded amounts approximate fair values or are receivable or payable on demand. The Bank does not use derivative financial instruments.

	December 31,			
	2008		2007	
	Amount	Value	Amount	Value
Financial Assets:				
Cash and cash equivalents	$ 6,869,406	$ 6,869,406	$ 19,637,698	$ 19,637,698
Interest-bearing deposits in other banks	12,205,000	12,205,000	-	-
Securities held-to-maturity	-	-	100,181	100,063
Securities available-for-sale	3,671,886	3,671,886	-	-
Bankers' bank and Federal Home Loan Bank stock	278,700	278,700	-	-
Loans, net	41,017,609	40,576,735	6,251,596	6,397,631
Financial Liabilities:				
Noninterest-bearing demand deposits	$ 10,049,217	$ 10,049,217	$ 2,547,352	$ 2,547,352
Interest-bearing demand deposits	2,740,038	2,740,038	702,941	702,941
Money market deposits	21,569,877	21,569,877	4,287,902	4,287,902
Time certificates of deposit	13,588,436	13,474,614	1,204,131	1,202,931
Savings account deposits	698,154	698,154	234,934	234,934

The following methods and assumptions were used to estimate the fair value of other classes of financial instruments:

Securities: The fair values of securities classified as available-for-sale and held-to-maturity are based on quoted market prices at the reporting date for those or similar investments.

Loans: The fair value of fixed rate loans is determined as the present value of expected future cash flows discounted at the interest rate currently offered by the Bank, which approximates rates currently offered by local lending institutions for loans of similar terms to companies with comparable credit risk. Variable rate loans which re-price frequently with changes in approximate market rates were valued using the outstanding principal balance. The estimated fair value of loan commitments and contingent liabilities at December 31, 2008 and December 31, 2007 approximate current book values.

Deposits: The fair values of demand deposits, savings deposits, and money market deposits without defined maturities were the amounts payable on demand. For substantially all deposits with defined maturities, the fair values were calculated using discounted cash flow models based on market interest rates for different product types and maturity dates. For variable rate deposits where the Bank has the contractual right to change rates, carrying value was assumed to approximate fair value. The discount rates used were based on rates for comparable deposits.

Note 13. Other Operating Income and Expense

The following is a breakdown of other non-interest income and non-interest expense in the Statement of Operations:

	2008	2007
Other non-interest income:		
Imprinted check sales	$ 3,214	$ 665
Wire transfer fees	2,130	40
Merchant card processing	1,497	-
Safe deposit fees	1,400	600
Other non-interest income	7,879	6
Total other non-interest income	$ 16,120	$ 1,311
Other operating expense:		
Directors' & organizers' stock-based options expense	$ 113,100	$ 78,880
Correspondent bank charges	45,691	2,096
human resources administration fees	30,401	6,260
Insurance and security	30,293	5,124
Stationery, supplies and printing	25,117	13,872
Shareholder related expense	23,885	1,696
Loan and collection expense	23,440	814
Telephone, postage and electronic communications	19,637	3,822
Regulatory assessments	18,925	-
Meetings & conferences	6,507	1,000
Education and training	6,000	7,632
Publications and subsctiptions	4,073	616
Customer checks and stamps	3,331	331
Armored car and messenger	2,682	-
Dues and memberships	2,183	615
Other non-interest expenses	22,328	4,867
Total other operating expenses	$ 377,593	$ 127,625

Note 14. Capital Adequacy

The Bank is subject to various regulatory capital adequacy requirements administered by the banking regulatory agencies. The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) required that the federal regulatory agencies adopt regulations defining five capital tiers for depository institutions: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, would have a direct material effect on the Bank’s financial statements.

Quantitative measures, established by the regulators to ensure capital adequacy, require that the Bank maintain minimum ratios (set forth in the following table) of capital to risk weighted assets and average assets.

Management believes that, as of December 31, 2008, the Bank met all capital adequacy requirements to which they were subject.

The most recent notification from the FDIC categorized the Bank as well capitalized under the FDICIA regulatory framework for prompt corrective action. To be categorized as well capitalized, the institution must maintain a total risk-based capital ratio as set forth in the following table and not be subject to a capital directive order (such as a Formal Agreement). There are no conditions or events since that notification that Management believes has changed the Bank's risk-based capital category.

(Dollars in thousands)	Actual		For Capital Adequacy Purposes:		For Regulatory Adequacy Purposes (first three years)		To Be Well Capitalized Under the FDICIA Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2008								
Total capital (to risk weighted assets)	$ 16,766	32.88%	$ 4,079	8.00%	$ 5,099	10.00%	$ 5,099	10.00%
Tier 1 capital (to risk weighted assets)	$ 16,125	31.63%	$ 2,039	4.00%	$ 3,059	6.00%	$ 3,059	6.00%
Tier 1 capital (to average assets) leverage ratio	$ 16,125	25.12%	$ 2,567	4.00%	$ 5,134	8.00%	$ 3,209	5.00%
As of December 31, 2007								
Total capital (to risk weighted assets)	$ 17,849	131.14%	$ 1,089	8.00%	$ 1,361	10.00%	$ 1,361	10.00%
Tier 1 capital (to risk weighted assets)	$ 17,769	130.55%	$ 544	4.00%	$ 817	6.00%	$ 817	6.00%
Tier 1 capital (to average assets) leverage ratio	$ 17,769	71.55%	$ 993	4.00%	$ 1,987	8.00%	$ 1,242	5.00%

The leverage ratio consists of Tier 1 capital divided by quarterly average assets, excluding intangible assets and certain other items. The minimum leverage ratio guideline is 4% for banking organizations that do not anticipate significant growth and that have well-diversified risk, excellent asset quality, high liquidity, good earnings and, in general, are considered top-rated, strong banking organizations. Throughout its first three years of operation, the Bank is required to maintain a Tier 1 Leverage Ratio of not less than 8%.

Note 15. Regulatory Matters

Under the terms of approval of deposit insurance by the Federal Deposit Insurance Corporation, the Bank's Tier 1 capital-to-assets leverage ratio (as defined in the appropriate capital regulation and guidance from the Bank's primary federal regulator) shall be maintained at not less than 8% throughout the first three years of operation. Additionally, the FDIC's approval requires that the Bank operate within the parameters of the business plan submitted as part of the Bank's application for deposit insurance during the first three years of operation and that any major deviation or material changes from the plan be submitted 60 days before consummating the change.

Board of Directors

(In order from left to right)

Craig A. French
Managing Director
Redtree Properties, LP.

Stephen D. Pahl
Senior Partner, Chairman
Pahl & McCay, a Professional
Law Corporation

William R. Slakey
Chief Financial Officer
LiveOps, Inc.

Douglas D. Austin
President
The Austin Financial Group

Ritu P. Meister, M.D.
Physician
Women's Medical Group
of Santa Cruz

John C. Burroughs, Chairman
Certified Financial Planner
Burroughs Financial Services

Michael P. Dunn, D.O.
Director, Physician
Santa Cruz Emergency Physicians

Richard G. Hofstetter
President and Chief Executive Officer
Lighthouse Bank

James L. Weisenstein
President
Graystone Consulting, LLC.

Bruce A. McPherson (not pictured)
California's 30th Secretary of State
Past California State Senator,
15th District

Senior Management

(In order from left to right)

Donald H. Soman
Executive Vice President
Chief Financial Officer

Richard G. Hofstetter
President
Chief Executive Officer

Lane S. Lawson, Jr.
Executive Vice President
Chief Credit Officer

Kimberly M. Raynal
Senior Vice President
Chief Operating Officer

Jon P. Sisk
Senior Vice President
Senior Lending Officer

STAFF

(In order from left to right)

Wendy Matlick
Assistant Vice President
Service Manager

Donald Soman
Executive Vice President
Chief Financial Officer

Kimberly Raynal
Senior Vice President
Chief Operating Officer

Lane Lawson, Jr.
Executive Vice President
Chief Credit Officer

Ivan Ditmars
Accounting Specialist

Marshall Delk
Vice President
Business Development Officer

Judy Spellerberg
Senior Client Service Representative

Joey Garcia
Loan Support Specialist

Claudia Morales
Client Service Representative

Robert Dennis
Vice President
SBA/Commercial
Relationship Manager

Gregory Hoffmann
Client Service Representative

Jon Sisk
Senior Vice President
Senior Lending Officer

Jamie Ganly
Vice President
Commercial Real Estate and
Construction Loan Officer

Dara Mort
Loan Support Officer

Eric Mendelson
Vice President
Commercial Relationship Manager

Richard Hofstetter
President
Chief Executive Officer

Michelle Cole
Assistant Vice President
Note Department Manager

Brianna Carabba
Assistant Vice President
Executive Administrator

Founding Organizers

Douglas and Jo-Ann Austin
Don and Barbara Bargiacchi
Gary and Valerie Benito
Ken and Deborah Bergman
Chip and Suzie Bogaard
Blaine and Connie Brokaw
William Brooks
John and Linda Burroughs
Marshall and Sabrina Delk
Dr. Michael and Julie Dunn
Craig and Mimi French
Peter and Nancy Gaarn
Doak and Jeri Gintert
Russell and Alana Gross
Richard Hofstetter
Larry and Jennifer Kerr
Gary and Lynn Marietti
Lido and Marie Marietti
Bill and Julie McDermott
Bruce and Mary McPherson
Dr. Ritu and Robert Meister
Herman Mondo
Richard Murphy
Jesse and Christine Nickell
Tom and Lisa O'Rourke
Stephen and Louise Pahl
Rowland and Pat Rebele
Hans Schroeder
Jon and Margie Sisk
Bill and Peggy Slakey
James and Carol Weisenstein
Whiting's Foods
Peter and Jackie Whiting
Tim and Ann Williams
Andy Zehnder

Shareholder Relations and Information

Stock Listing

Lighthouse Bank's stock is listed on the Over-the-Counter Bulletin Board (OTCBB) and trades under the ticker symbol LGHT.OB.

Market Maker

Lisa Gallo
Wedbush Morgan Securities
Lafayette, CA
Phone: (866) 491-7828
Email: lisa.gallo@wedbush.com

Shareholders with questions regarding their stockholder account, stock transfer, lost certificates or changes of address should contact their broker. In the event that certificates are held directly, shareholders should contact the Bank's stock transfer agent:

Computershare Trust Company, N.A.

P.O. Box 43078
Providence, RI 02940
Phone: (800) 962-4284
Fax: (303) 262-0609
www.computershare.com

For assistance with other stock related matters or to change your contact information for periodic shareholder communications sent directly from the bank, shareholders should contact:

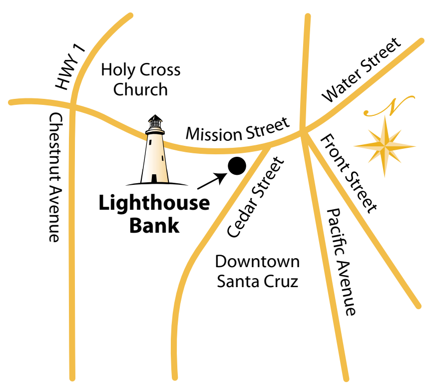
Brianna Carabba

Lighthouse Bank
111 Mission Street
Santa Cruz, CA 95060
(831) 600-4007

For financial information beyond that shown in this report, shareholders should contact:

Donald H. Soman

Chief Financial Officer
Lighthouse Bank
111 Mission Street
Santa Cruz, CA 95060
(831) 600-4009



Lighthouse Bank
111 Mission Street
Santa Cruz, CA 95060
(831) 600-4000
www.lighthousebank.net

Member FDIC
EQUAL HOUSING LENDER

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111 Mission Street, Santa Cruz, CA 95060 ▪ Phone: (831) 600-4000 ▪ Fax: (831) 427-2260 ▪ www.lighthousebank.net