

FIRST PACTRUST BANCORP INC  
Form 424B3  
November 10, 2011

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Filed Pursuant to Rule 424(b)(3)  
Registration No. 333-177652

### MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT

Dear Shareholder:

On August 30, 2011, Beach Business Bank and First PacTrust Bancorp, Inc. agreed to a strategic business combination in which Beach will merge with a wholly owned subsidiary of First PacTrust. In the merger, each share of Beach common stock will be converted into (1) 0.33 of a share of First PacTrust common stock, subject to certain adjustments, and (2) \$4.61 in cash. In certain circumstances described in detail in this proxy statement/prospectus, the merger will be restructured and each share of Beach common stock will be converted into (1) \$9.12 in cash and (2) one warrant to purchase 0.33 of a share of First PacTrust common stock at an exercise price of \$14.00 per share of First PacTrust common stock, exercisable for one year following the completion of the merger. The maximum number of shares of First PacTrust common stock to be delivered to holders of shares of Beach common stock upon completion of the merger is approximately 1,550,802 shares, based on the number of shares of Beach common stock outstanding as of November 7, 2011 and assuming full exercise of all outstanding and unexercised stock options.

We are sending you this proxy statement/prospectus to notify you of and invite you to the special meeting of Beach shareholders being held to consider the Agreement and Plan of Merger, dated as of August 30, 2011, as amended on October 31, 2011, as it may be further amended from time to time (which we refer to as the merger agreement), that Beach has entered into with First PacTrust, and to ask you to vote at the special meeting in favor of the approval of the merger agreement.

The special meeting of Beach shareholders will be held on December 22, 2011 at the Ayres Hotel, 14400 Hindry Avenue, Hawthorne, California 90250, at 9:00 a.m. local time.

At the special meeting, you will be asked to approve the merger agreement. In the merger, Beach will merge with a wholly owned subsidiary First PacTrust. You will also be asked to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies in favor of the approval of the merger agreement.

The market value of the merger consideration will fluctuate with the market price of First PacTrust common stock and will not be known at the time you vote on the merger. First PacTrust common stock is currently quoted on the NASDAQ Global Market under the symbol "BANC." On November 8, 2011, the last practicable trading day before the date of this proxy statement/prospectus, the closing share price of First PacTrust common stock was \$11.92 per share as reported on the NASDAQ Global Market. **We urge you to obtain current market quotations for First PacTrust and Beach.**

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Your vote is important. We cannot complete the merger unless Beach's shareholders approve the merger agreement. In order for the merger to be approved, the holders of at least a majority of the shares of Beach common stock outstanding and entitled to vote must vote in favor of approval of the merger agreement. Regardless of whether or not you plan to attend the special meeting, please take the time to vote your shares in accordance with the instructions contained in this proxy statement/prospectus. Failing to vote will have the same effect as voting against the merger.

**Beach's board of directors unanimously recommends that Beach shareholders vote "FOR" approval of the merger agreement and "FOR" the approval of the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies in favor of the approval of the merger agreement.**

This proxy statement/prospectus describes the special meeting, the merger, the documents related to the merger and other related matters. Please carefully read this entire proxy statement/prospectus,

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including "Risk Factors" for a discussion of the risks relating to the proposed merger. You also can obtain information about First PacTrust from documents that it has filed with the Securities and Exchange Commission.

If you have any questions concerning the merger, please contact Beach's proxy solicitor, Georgeson Inc., 199 Water Street, 26th Floor, New York, New York 10038 at (800) 219-8343 (toll free), or at BBBC@Georgeson.com. Banks and brokerage firms should call Georgeson at (212) 440-9800. We look forward to seeing you at the Ayres Hotel in Hawthorne, California.

**/s/ John F. Philips**

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John F. Philips  
Co-Chairman of the Board  
Beach Business Bank

**/s/ James H. Gray**

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James H. Gray  
Co-Chairman of the Board  
Beach Business Bank

**Neither the Securities and Exchange Commission, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the California Department of Financial Institutions, nor any state securities commission or any other bank regulatory agency has approved or disapproved the securities to be issued in the merger or determined if this proxy statement/prospectus is accurate or adequate. Any representation to the contrary is a criminal offense.**

**The securities to be issued in the merger are not savings or deposit accounts or other obligations of any bank or non-bank subsidiary of either First PacTrust or Beach, and they are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.**

The date of this proxy statement/prospectus is November 9, 2011, and it is first being mailed or otherwise delivered to Beach shareholders on or about November 10, 2011.

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**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS**

To the Shareholders of Beach Business Bank:

Beach Business Bank will hold a special meeting of shareholders at 9:00 am local time, on December 22, 2011, at the Ayres Hotel, 14400 Hindry Avenue, Hawthorne, California 90250, to consider and vote upon the following matters:

a proposal to approve the Agreement and Plan of Merger, dated as of August 30, 2011, as amended on October 31, 2011, by and among First PacTrust Bancorp, Inc. and Beach Business Bank, pursuant to which Beach will merge with a wholly owned subsidiary of First PacTrust as more fully described in the attached proxy statement/prospectus; and

a proposal to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies in favor of the approval of the merger agreement.

We have fixed the close of business on November 4, 2011 as the record date for the special meeting. Only Beach shareholders of record at that time are entitled to notice of, and to vote at, the special meeting, or any adjournment or postponement of the special meeting. In order for the merger to be approved, the holders of a majority of the shares of Beach common stock outstanding and entitled to vote must vote in favor of approval of the merger agreement.

**Your vote is very important.** We cannot complete the merger unless Beach's common shareholders approve the merger agreement. Failure to vote will have the same effect as voting against the merger.

**Regardless of whether you plan to attend the special meeting, please vote as soon as possible. If you hold stock in your name as a shareholder of record, please complete, sign, date and return the accompanying proxy card in the enclosed postage-paid return envelope, or call the toll-free telephone number or use the Internet as described in the instructions included with your proxy card or voting instruction card. If you hold your stock in "street name" through a bank or broker, please follow the instructions on the voting instruction card furnished by the record holder.**

The enclosed proxy statement/prospectus provides a detailed description of the special meeting, the merger, the documents related to the merger and other related matters. We urge you to read the proxy statement/prospectus, including any documents incorporated in the proxy statement/prospectus by reference, and its appendices carefully and in their entirety. If you have any questions concerning the merger or the proxy statement/prospectus, would like additional copies of the proxy statement/prospectus or need help voting your shares of Beach common stock, please contact Beach's proxy solicitor, Georgeson, Inc., 199 Water Street, 26th Floor, New York, New York 10038 at (800) 219-8343.

**Beach's board of directors has unanimously approved the merger and the merger agreement and unanimously recommends that Beach shareholders vote "FOR" the approval of the merger agreement and "FOR" the approval of the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies in favor of such approval.**

**BY ORDER OF THE BOARD OF DIRECTORS,**  
*/s/ Melissa Lanfre*

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Melissa Lanfre  
*Corporate Secretary*

Manhattan Beach, California  
November 9, 2011

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**REFERENCES TO ADDITIONAL INFORMATION**

This proxy statement/prospectus incorporates important business and financial information about First PacTrust from documents filed with or furnished to the Securities and Exchange Commission, or SEC, that are not included in or delivered with this proxy statement/prospectus. You can obtain any of the documents filed with or furnished to the SEC by First PacTrust at no cost from the SEC's website at <http://www.sec.gov>. You may also request copies of these documents, including documents incorporated by reference in this proxy statement/prospectus, at no cost by contacting First PacTrust at the following address:

**First PacTrust Bancorp, Inc.**  
610 Bay Boulevard  
Chula Vista, California 91910  
Attention: Secretary  
Telephone: (619) 691-1519

**You will not be charged for any of these documents that you request. To obtain timely delivery of these documents, you must request them no later than five business days before the date of the special meeting. This means that Beach shareholders requesting documents must do so by December 15, 2011, in order to receive them before the special meeting.**

In addition, if you have questions about the merger or the Beach special meeting, need additional copies of this proxy statement/prospectus or need to obtain proxy cards or other information related to the proxy solicitation, you may contact Georgeson, Inc., at the following address and telephone numbers:

**Georgeson, Inc.**  
199 Water Street, 26th Floor  
New York, New York 10038  
(800) 219-8343 (Toll Free)

Banks and brokerage firms please call: (212) 440-9800

Beach does not have a class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended, is not subject to the reporting requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and accordingly does not file documents or reports with the SEC.

See "Where You Can Find More Information" for more details.

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**QUESTIONS AND ANSWERS ABOUT THE MERGER AND THE BEACH SPECIAL MEETING**

**The following are some questions that you may have regarding the merger and the Beach special meeting, and brief answers to those questions. We urge you to read carefully the remainder of this proxy statement/prospectus because the information in this section does not provide all of the information that might be important to you with respect to the merger and the Beach special meeting. Additional important information is also contained in the documents incorporated by reference into this proxy statement/prospectus. See "Where You Can Find More Information."**

**References in this proxy statement/prospectus to "Beach" refer to Beach Business Bank, a California-chartered state bank. References in this proxy statement/prospectus to "First PacTrust" refer to First PacTrust Bancorp, Inc., a Maryland corporation, and, unless the context otherwise requires, to its affiliates.**

**Q: What am I being asked to vote on at the Beach special meeting?**

A:

First PacTrust and Beach have entered into an Agreement and Plan of Merger, dated as of August 30, 2011, as amended on October 31, 2011, which is referred to as the merger agreement, pursuant to which First PacTrust has agreed to acquire Beach. Under the terms of the merger agreement, Beach will merge with and into a wholly owned subsidiary of First PacTrust that will be formed prior to the completion of the merger, which we refer to as the merger sub, with the merger sub continuing as the surviving entity. We refer to this transaction as the merger. In certain circumstances described in detail in this proxy statement/prospectus, the merger will be restructured, and the merger sub will merge with and into Beach, with Beach continuing as the surviving entity. Beach shareholders are being asked to approve the merger agreement and the transactions it contemplates, including the merger.

Beach shareholders are also being asked to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies in favor of the approval of the merger agreement. This is referred to as the adjournment proposal.

**Q: What will I receive in the merger?**

A:

If the merger is completed, you will receive (1) 0.33 of a share of First PacTrust common stock, which we refer to as the exchange ratio, and (2) \$4.61 in cash for each share of Beach common stock you hold immediately prior to the merger, subject to the following adjustments:

if the average price per share of First PacTrust common stock for the 20 trading days immediately preceding (but not including) the fifth trading day prior to the completion of the merger, which we refer to as the First PacTrust closing share value, exceeds \$16.50, then the exchange ratio will be decreased to a number equal to the quotient of 5.44 divided by the First PacTrust closing share value;

if the First PacTrust closing share value is less than \$13.50, or if First PacTrust otherwise determines that there is a reasonable possibility that the First PacTrust common stock to be issued in the merger, as a percentage of the total consideration in the merger, will be less than that necessary to assure reorganization treatment of the merger for tax purposes, then you will receive (1) \$9.12 in cash and (2) one warrant to purchase 0.33 of a share of First PacTrust common stock at an exercise price of \$14.00 per share of First PacTrust common stock, exercisable for a period of one year following the completion of the merger, for each share of Beach common stock held immediately prior to the merger (we refer to this consideration as the alternative consideration); and

if the merger is not completed on or before April 2, 2012 due to the failure to obtain regulatory approvals, the aggregate consideration payable to Beach shareholders will be increased by



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\$100,000 for each month beginning on February 1, 2012 until the merger is completed. However, this additional consideration will not exceed the net income of Beach during the period beginning on February 1, 2012 and ending on the date of the completion of the merger. First PacTrust will have the option to deliver any such increase in cash, shares of First PacTrust common stock or any combination thereof, unless the alternative consideration is paid, in which case such increase will be paid in cash.

First PacTrust will not issue any fractional shares of First PacTrust common stock in the merger or fractional shares of First PacTrust common stock upon the exercise of the warrants, as applicable. Beach shareholders who would otherwise be entitled to a fractional share of First PacTrust common stock upon the completion of the merger will instead receive an amount in cash based on the First PacTrust closing share value. Beach shareholders who would otherwise be entitled to a fractional share of First PacTrust common stock upon exercise of their warrants will instead receive an amount in cash based on the closing price of First PacTrust common stock on the trading day immediately preceding the date the warrant is exercised.

**Q: Will the value of the merger consideration change between the special meeting and the time the merger is completed?**

A:

The value of the merger consideration may fluctuate between the special meeting and the completion of the merger based upon the market value for First PacTrust common stock. In the merger you will receive a fraction of a share of First PacTrust common stock for each share of Beach common stock you hold, or, if the alternative consideration is paid, a warrant to purchase a fraction of a share of First PacTrust common stock for each share of Beach common stock you hold. Any fluctuation in the market price of First PacTrust common stock after the special meeting will change the value of the shares of First PacTrust common stock or, if the alternative consideration is paid, the warrants to purchase shares of First PacTrust common stock, that you will receive.

**Q: How does Beach's board of directors recommend that I vote at the special meeting?**

A:

Beach's board of directors unanimously recommends that you vote "FOR" the proposal to approve the merger agreement and "FOR" the adjournment proposal.

**Q: When and where is the Beach special meeting?**

A:

The Beach special meeting will be held at the Ayres Hotel, 14400 Hindry Avenue, Hawthorne, California 90250 on December 22, 2011, at 9:00 am local time.

**Q: What do I need to do now?**

A:

After you have carefully read this proxy statement/prospectus and have decided how you wish to vote your shares, please vote your shares promptly so that your shares are represented and voted at the special meeting. If you hold your shares in your name as a shareholder of record, you must complete, sign, date and mail your proxy card in the enclosed postage-paid return envelope as soon as possible, or call the toll-free telephone number or use the Internet as described in the instructions included with your proxy card or voting instruction card. If you hold your shares in "street name" through a bank or broker, you must direct your bank or broker to vote in accordance with the instructions you have received from your bank or broker. "Street name" shareholders who wish to vote at the special meeting will need to obtain a proxy form from the institution that holds their shares.

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**Q: What constitutes a quorum for the special meeting?**

A:

The presence at the special meeting, in person or by proxy, of holders of a majority of the outstanding shares of Beach common stock entitled to vote at the special meeting will constitute a quorum for the transaction of business. Abstentions and broker non-votes will be included in determining the number of shares present at the meeting for the purpose of determining the presence of a quorum. A broker non-vote occurs under stock exchange rules when a broker is not permitted to vote on a matter without instructions from the beneficial owner of the shares and no instruction is given.

**Q: What is the vote required to approve each proposal at the Beach special meeting?**

A:

Approval of the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares of Beach common stock as of the close of business on November 4, 2011, the record date for the special meeting.

Approval of the adjournment proposal requires the affirmative vote of a majority of shares of Beach common stock represented in person or by proxy at the special meeting, even if less than a quorum.

**Q: Why is my vote important?**

If you do not vote, it will be more difficult for Beach to obtain the necessary quorum to hold its special meeting. In addition, your failure to vote or failure to instruct your bank or broker as to how to vote will have the same effect as a vote against approval of the merger agreement. The merger agreement must be approved by the holders of a majority of the outstanding shares of Beach common stock entitled to vote at the special meeting. Beach's board of directors unanimously recommends that you vote to approve the merger agreement.

**Q: If my shares of common stock are held in "street name" by my bank or broker, will my bank or broker automatically vote my shares for me?**

A:

No. Your bank or broker cannot vote your shares without instructions from you. You should instruct your bank or broker as to how to vote your shares in accordance with the instructions provided to you. Please check the voting form used by your bank or broker.

**Q: What if I abstain from voting or fail to instruct my bank or broker?**

A:

If you fail to vote, mark "ABSTAIN" on your proxy or fail to instruct your bank or broker with respect to the proposal to approve the merger agreement, it will have the same effect as a vote "AGAINST" the proposal.

If you mark "ABSTAIN" on your proxy with respect to the adjournment proposal, it will have the same effect as a vote "AGAINST" the proposal. The failure to vote or failure to instruct your bank or broker with respect to the adjournment proposal, however, will have no effect on the adjournment proposal.

**Q: Can I attend the special meeting and vote my shares in person?**

A:

Yes. All shareholders, including shareholders of record and shareholders who hold their shares through banks, brokers, nominees or any other holder of record, are invited to attend the special meeting. Holders of record of Beach common stock can vote in person at the special meeting. If you are not a shareholder of record, you must obtain a proxy, executed in your favor, from the record holder of your shares, such as a broker, bank or other nominee, to be able to vote in person at the special meeting. If you plan to attend the special meeting, you must hold your shares

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in your own name or have a letter from the record holder of your shares confirming your ownership. In addition, you must bring a form of personal photo identification with you in order to be admitted. Beach reserves the right to refuse admittance to anyone without proper proof of share ownership or without proper photo identification. The use of cameras, sound recording equipment, communications devices or any similar equipment during the special meeting is prohibited without Beach's express written consent.

**Q: Can I change my vote?**

A:

Yes. You may revoke any proxy at any time before it is voted by (1) signing and returning a proxy card with a later date, (2) delivering a written revocation letter to Beach's corporate secretary, (3) voting again by telephone or the Internet or (4) attending the special meeting in person, notifying the corporate secretary and voting by ballot at the special meeting. Attendance at the special meeting will not automatically revoke your proxy. A revocation or later-dated proxy received by Beach after the vote will not affect the vote. Beach's corporate secretary's mailing address is Secretary, Beach Business Bank, 1230 Rosecrans Avenue, Suite 100, Manhattan Beach, California 90266. If you hold your shares in "street name" through a bank or broker, you should contact your bank or broker to revoke your proxy.

**Q: Will Beach be required to submit the proposal to approve the merger agreement to its shareholders even if Beach's board of directors has withdrawn, modified or qualified its recommendation?**

A:

Yes. Unless the merger agreement is terminated before the Beach special meeting, Beach is required to submit the proposal to approve the merger agreement to its shareholders even if Beach's board of directors has withdrawn or modified its recommendation.

**Q: What are the U.S. federal income tax consequences of the merger to Beach shareholders?**

A:

Unless the alternative consideration is paid, the merger is intended to qualify as a "reorganization" within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, which we refer to as the Code, and U.S. holders of Beach common stock are not expected to recognize any gain or loss for U.S. federal income tax purposes on the exchange of shares of Beach common stock for shares of First PacTrust common stock in the merger, except that U.S. holders will recognize gain (but not loss) to the extent of the amount of any cash received in the merger.

If the alternative consideration is paid, then the merger will be a taxable transaction and U.S. holders of Beach common stock are expected to recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference, if any, between (1) the sum of the amount of cash and the fair market value of the warrants to purchase First PacTrust common stock received in the merger and (2) the U.S. holder's adjusted tax basis in the Beach common stock surrendered.

For further information, see "Material U.S. Federal Income Tax Consequences of the Merger."

*The U.S. federal income tax consequences described above may not apply to all holders of Beach common stock. A holder's tax consequences will depend on its individual situation. Accordingly, we strongly urge you to consult your tax advisor for a full understanding of the particular tax consequences of the merger to you.*

**Q: What if I want to exercise dissenters' rights?**

A:

If you want to exercise dissenters' rights and receive the fair value of your Beach shares in cash instead of the merger consideration described in this proxy statement/prospectus, your shares must not be voted "FOR" approval of the merger agreement, and you must follow other procedures

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after the meeting, as described in Annex C. If you return a signed proxy without voting instructions or with instructions to vote "FOR" the merger agreement, your shares will be automatically voted in favor of the merger agreement and you will lose dissenters' rights. Thus, if you wish to dissent and you execute and return a proxy, you must specify that your shares are to be either voted "AGAINST" or "ABSTAIN" with respect to approval of the merger.

**Q: If I am a Beach shareholder, should I send in my Beach stock certificates now?**

A:

No. Please do not send in your Beach stock certificates with your proxy. After the merger, an exchange agent designated by First PacTrust will send you instructions for exchanging Beach stock certificates for the merger consideration. See "The Merger Agreement Conversion of Shares; Exchange of Certificates."

**Q: What should I do if I hold my shares of Beach common stock in book-entry form?**

A:

You are not required to take any specific actions if your shares of Beach common stock are held in book-entry form. After the completion of the merger, shares of Beach common stock held in book-entry form automatically will be exchanged for the merger consideration, including shares of First PacTrust common stock in book-entry form if the alternative consideration is not paid, and any cash to be received in the merger.

**Q: Whom may I contact if I cannot locate my Beach stock certificate(s)?**

A:

If you are unable to locate your original Beach stock certificate(s), you should contact Computershare Trust Company, N.A. at (800) 546-5141.

**Q: When do you expect to complete the merger?**

A:

Beach and First PacTrust expect to complete the merger in mid-year 2012. However, neither Beach nor First PacTrust can assure you when or if the merger will occur. Beach and First PacTrust must first obtain the approval of Beach shareholders at the special meeting and the necessary regulatory approvals.

**Q: Whom should I call with questions?**

A:

If you have any questions concerning the merger or this proxy statement/prospectus, would like additional copies of this proxy statement/prospectus or need help voting your shares of Beach common stock, please contact: Georgeson, Inc., Beach's proxy solicitor, at (800) 219-8343. Banks and brokerage firms should call Georgeson at (212) 440-9800.

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SUMMARY

**This summary highlights selected information from this proxy statement/prospectus. It may not contain all of the information that is important to you. We urge you to carefully read the entire proxy statement/prospectus, including the appendices, and the other documents to which we refer in order to fully understand the merger. See "Where You Can Find More Information." Each item in this summary refers to the page of this proxy statement/prospectus on which that subject is discussed in more detail.**

**In the Merger, Beach Shareholders Will Receive Either Cash and Shares of First PacTrust Common Stock or Cash and Warrants to Purchase Shares of First PacTrust Common Stock (page 38)**

If the merger is completed, you will receive (1) 0.33 of a share of First PacTrust common stock and (2) \$4.61 in cash for each share of Beach common stock you hold immediately prior to the merger, subject to the following adjustments:

if the First PacTrust closing share value exceeds \$16.50, then the exchange ratio will be decreased to a number equal to the quotient of 5.44 divided by the First PacTrust closing share value;

if the First PacTrust closing share value is less than \$13.50, or if First PacTrust otherwise determines that there is a reasonable possibility that the First PacTrust common stock to be issued in the merger, as a percentage of the total consideration in the merger, will be less than that necessary to assure reorganization treatment of the merger for tax purposes, then you will receive (1) \$9.12 in cash and (2) one warrant to purchase 0.33 of a share of First PacTrust common stock at an exercise price of \$14.00 per share of First PacTrust common stock, exercisable for a period of one year following the completion of the merger, for each share of Beach common stock held immediately prior to the merger; and

if the merger is not completed on or before April 2, 2012 due to the failure to obtain regulatory approvals, the aggregate consideration payable to Beach shareholders will be increased by \$100,000 for each month beginning on February 1, 2012 until the merger is completed. However, this additional consideration will not exceed the net income of Beach during the period beginning on February 1, 2012 and ending on the date of the completion of the merger. First PacTrust will have the option to deliver any such increase in cash, shares of First PacTrust common stock or any combination thereof, unless the alternative consideration is paid, in which case such increase will be paid in cash.

First PacTrust will not issue any fractional shares of First PacTrust common stock in the merger or fractional shares of First PacTrust common stock upon the exercise of the warrants, as applicable. Beach shareholders who would otherwise be entitled to a fractional share of First PacTrust common stock upon the completion of the merger will instead receive an amount in cash based on the First PacTrust closing share value. *For example, if you hold 10 shares of Beach common stock, you will receive three shares of First PacTrust common stock and a cash payment instead of the 0.3 shares of First PacTrust common stock that you otherwise would have received (i.e., 10 shares × 0.33 = 3.3 shares).* Beach shareholders who would otherwise be entitled to a fractional share of First PacTrust common stock upon exercise of their warrants will instead receive an amount in cash based on the closing price of First PacTrust common stock on the trading day immediately preceding the date the warrant is exercised.

The merger agreement governs the merger. The merger agreement is included in this proxy statement/prospectus as Annex A. Please read the merger agreement carefully. All descriptions in this summary and elsewhere in this proxy statement/prospectus of the terms and conditions of the merger are qualified by reference to the merger agreement.

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**Beach's Board of Directors Unanimously Recommends that Beach Shareholders Vote "FOR" Approval of the Merger Agreement (page 41)**

Beach's board of directors determined that the merger, the merger agreement and the transactions contemplated by the merger agreement are advisable and in the best interests of Beach and its shareholders and has unanimously approved the merger and the merger agreement. Beach's board of directors unanimously recommends that Beach shareholders vote "FOR" approval of the merger agreement. For the factors considered by Beach's board of directors in reaching its decision to approve the merger agreement, see "The Merger Beach's Reasons for the Merger; Recommendation of Beach's Board of Directors."

**Sandler O'Neill + Partners, L.P. Has Provided an Opinion to Beach's Board of Directors Regarding the Merger Consideration (page 43 and Annex B)**

On August 30, 2011, Sandler O'Neill + Partners, L.P., Beach's financial advisor in connection with the merger, rendered its oral opinion to Beach's board of directors, subsequently confirmed in writing, that as of such date and based upon and subject to the assumptions, procedures, considerations, qualifications and limitations set forth in the written opinion, the merger consideration was fair, from a financial point of view, to the holders of shares of Beach common stock.

The full text of Sandler O'Neill's opinion, dated August 30, 2011, is attached as Annex B to this proxy statement/prospectus. You should read the opinion in its entirety for a discussion of the assumptions made, procedures followed, factors considered and limitations upon the review undertaken by Sandler O'Neill in rendering its opinion.

Sandler O'Neill's opinion is directed to Beach's board of directors, addresses only the fairness of the merger consideration from a financial point of view to the holders of shares of Beach common stock on the date the opinion was rendered, and does not address any other aspect of the merger or constitute a recommendation as to how any shareholders of Beach should vote at any shareholder meeting held in connection with the merger.

For further information, see "The Merger Opinion of Sandler O'Neill + Partners, L.P."

**What Holders of Beach Stock Options and Other Equity-Based Awards Will Receive (page 64)**

Each option to acquire Beach common stock, which we refer to as a Beach option, will become fully vested and exercisable no later than 10 business days prior to the completion of the merger. Any Beach option that has not been exercised will be cancelled at the effective time of the merger, and holders of such Beach options will be entitled to receive, for each Beach option, an amount in cash equal to the excess, if any, of (1) the average of the last trading price of Beach common stock, as reported on the OTC Bulletin Board, for each of the five trading days immediately preceding the completion of the merger on which a trade of Beach common stock was reported over (2) the per share exercise price for each share of Beach common stock subject to the Beach option. Accordingly, it is not anticipated that any Beach options will be outstanding at the effective time of the merger.

Each outstanding restricted share of Beach common stock, and each outstanding right to receive a restricted share of Beach common stock, will be converted into a restricted share of First PacTrust common stock, or a right to receive a restricted share of First PacTrust common stock, as the case may be, on the same terms and conditions applicable to the corresponding restricted shares of Beach common stock or rights to receive restricted shares of Beach common stock immediately before the completion of the merger, except that they will be adjusted to reflect the exchange ratio under the merger agreement. Certain of the restricted shares of Beach common stock held by Beach's named executive officers will vest upon the TARP redemption (which is described below in "The Merger Agreement Redemption of Preferred Stock Held by the United States Department of the Treasury") in accordance with their terms. For more information, see "The Merger Interests of Beach's Directors and Executive Officers in the Merger."

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**Beach Will Hold its Special Meeting on December 22, 2011 (page 31)**

The special meeting of Beach shareholders will be held on December 22, 2011, at 9:00 am local time, at the Ayres Hotel, 14400 Hindry Avenue, Hawthorne, California 90250. At the special meeting, Beach shareholders will be asked to:

approve the merger agreement and the transactions it contemplates; and

approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies in favor of the approval of the merger agreement, which we refer to as the adjournment proposal.

Only holders of record at the close of business on November 4, 2011 will be entitled to vote at the special meeting. Each share of Beach common stock is entitled to one vote on each proposal to be considered at the Beach special meeting. As of the record date, there were 4,046,733 shares of Beach common stock entitled to vote at the special meeting. Each of the directors of Beach and certain of the executive officers of Beach have entered into voting agreements with First PacTrust, pursuant to which they have agreed, solely in their capacity as Beach shareholders, to vote all of their shares of Beach common stock in favor of the proposals to be presented at the special meeting. As of the record date, Beach directors and executive officers who are parties to the voting agreements owned and were entitled to vote an aggregate of approximately 720,172 shares of Beach common stock. As of the record date, the directors and executive officers of Beach beneficially owned and were entitled to vote approximately 735,763 shares of Beach common stock representing approximately 18% of the shares of Beach common stock outstanding on that date, and held options to purchase 440,900 shares of Beach common stock and 92,364 shares underlying restricted stock awards. As of the record date, First PacTrust and its subsidiaries held no shares of Beach common stock (other than shares held as fiduciary, custodian or agent), and its directors and executive officers or their affiliates held in the aggregate 184,474 shares of Beach common stock.

To approve the merger agreement, holders of a majority of the outstanding shares of Beach common stock entitled to vote at the special meeting must vote in favor of approving the merger agreement. Because approval is based on the affirmative vote of a majority of the shares outstanding, your failure to vote, failure to instruct your bank or broker how to vote with respect to the proposal to approve the merger agreement or abstention will have the same effect as a vote against approval of the merger agreement.

Approval of the adjournment proposal requires the affirmative vote of a majority of shares of Beach common stock entitled to vote on, and represented in person or by proxy at the special meeting, even if less than a quorum. Because approval of the adjournment proposal is based on the affirmative vote of a majority of shares voting or expressly abstaining at the special meeting, abstentions will have the same effect as a vote against such proposal. The failure to vote or failure to instruct your bank or broker how to vote with respect to the adjournment proposal, however, will have no effect on such proposal.

**The Tax Treatment of the Merger Will Depend on the Structure of the Merger (page 82)**

Unless the alternative consideration is paid, the merger is intended to qualify as a "reorganization" within the meaning of Section 368(a) of the Code, and it is a condition to the respective obligations of First PacTrust and Beach to complete the merger that each of First PacTrust and Beach receive a legal opinion to that effect. Accordingly, U.S. holders of Beach common stock are not expected to recognize any gain or loss for U.S. federal income tax purposes on the exchange of shares of Beach common stock for shares of First PacTrust common stock in the merger, except that U.S. holders will recognized gain (but not loss) to the extent of the amount of any cash received in the merger.

If the alternative consideration is paid, then the merger will be a taxable transaction and U.S. holders of Beach common stock are expected to recognize gain or loss for U.S. federal income tax

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purposes in an amount equal to the difference, if any, between (1) the sum of the amount of cash and the fair market value of the warrants to purchase First PacTrust common stock received in the merger and (2) the U.S. holder's adjusted tax basis in the shares of Beach common stock surrendered.

For further information, see "Material U.S. Federal Income Tax Consequences of the Merger."

*The U.S. federal income tax consequences described above may not apply to all holders of Beach common stock. A holder's tax consequences will depend on its individual situation. Accordingly, we strongly urge you to consult your tax advisor for a full understanding of the particular tax consequences of the merger to you.*

**Beach's Officers and Directors Have Financial Interests in the Merger that Differ from Your Interests (page 53)**

Beach shareholders should be aware that some of Beach's directors and executive officers have interests in the merger and have arrangements that are different from, or in addition to, those of Beach shareholders generally. These interests and arrangements may create potential conflicts of interest. Beach's board of directors was aware of these interests and considered these interests, among other matters, when making its decision to approve the merger agreement, and in recommending that Beach's shareholders vote in favor of approving the merger agreement.

Beach is party to Executive Employment Agreements with each of its named executive officers. These agreements provide for severance benefits in the event of certain qualifying terminations of employment, including a termination due to a change in control.

Each Beach option will become fully vested and exercisable no later than 10 business days prior to the completion of the merger. Any Beach option that has not been exercised will be cancelled at the effective time of the merger, and holders of such Beach options will be entitled to receive, for each Beach option, an amount in cash equal to the excess, if any, of (1) the average of the last trading price of Beach common stock, as reported on the OTC Bulletin Board, for each of the five trading days immediately preceding the completion of the merger on which a trade of Beach common stock was reported over (2) the per share exercise price for each share of Beach common stock subject to the Beach option.

In addition, certain of the restricted shares of Beach common stock held by the Beach named executive officers will vest upon the TARP redemption (which is described below in "The Merger Agreement Redemption of Preferred Stock Held by the United States Department of the Treasury") in accordance with their terms.

For a more complete description of these interests, see "The Merger Interests of Beach's Directors and Executive Officers in the Merger" and "The Merger Agreement Treatment of Beach Stock Options and Other Equity-Based Awards."

**Beach Shareholders Who Do Not Vote "For" the Merger Will Have Dissenters' Rights (page 57)**

Under California law, which is the law under which Beach is incorporated, the holders of Beach common stock will be entitled to dissenters' appraisal rights in connection with the merger, provided they do not vote "FOR" the merger and comply with all other applicable statutory procedures for asserting dissenters' rights required by California law. Thus, if you wish to dissent and you execute and return a proxy in the accompanying form, you must specify that your shares are to be voted "AGAINST" or "ABSTAIN" with respect to approval of the merger. If you do not return your proxy then you also may exercise your dissenters' rights. Shareholders who exercise their dissenters' rights by complying with the applicable statutory procedures required by California law will be entitled to receive payment in cash for the fair value of their shares as determined by Beach or, in the event that Beach and such shareholders cannot agree on the fair value of their shares, in a judicial proceeding. The



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procedures to be followed by dissenting shareholders are described below in "The Merger Dissenters' Rights in the Merger."

**Conditions That Must Be Satisfied or Waived for the Merger to Occur (page 75)**

Currently, Beach and First PacTrust expect to complete the merger mid-year 2012. As more fully described in this proxy statement/prospectus and in the merger agreement, the completion of the merger depends on a number of conditions being satisfied or, where legally permissible, waived. These conditions include, among others, approval of the merger agreement by Beach's shareholders and the receipt of certain required regulatory approvals.

Neither Beach nor First PacTrust can be certain when, or if, the conditions to the merger will be satisfied or waived, or that the merger will be completed.

**Termination of the Merger Agreement (page 76)**

The merger agreement can be terminated at any time prior to completion of the merger by mutual consent, or by either party in the following circumstances:

the merger has not been completed by May 30, 2012 (if the failure to complete the merger by that date is not caused by the terminating party's breach of the merger agreement), subject to a 90-day extension if the reason for the delay is limited to the receipt of required regulatory approvals (we refer to this date, as extended, as the end date);

any required regulatory approval has been denied by the relevant regulatory authority and this denial has become final and nonappealable, or a regulatory authority has issued a final, nonappealable injunction permanently enjoining or otherwise prohibiting the completion of the merger or the other transactions contemplated by the merger agreement;

there is a breach by the other party that would cause the failure of the closing conditions described above, and the breach is not cured prior to the earlier of May 30, 2012 and 30 business days following written notice of the breach; or

Beach shareholders fail to approve the merger agreement at the shareholder meeting, and Beach is not obligated to resubmit the merger agreement to its shareholders for approval at a second shareholder meeting as described below in "The Merger Agreement Beach Shareholder Meeting and Recommendation of Beach's Board of Directors," or the merger agreement is resubmitted to Beach shareholders at a second shareholder meeting and the Beach shareholders fail to approve the merger agreement at such shareholder meeting.

In addition, First PacTrust may terminate the merger agreement in the following circumstances:

Beach shareholders fail to approve the merger agreement at the shareholder meeting (regardless of whether or not Beach is obligated to resubmit the merger agreement to its shareholders for approval at a second shareholder meeting as described below in "The Merger Agreement Beach Shareholder Meeting and Recommendation of Beach's Board of Directors");

Beach's board of directors fails to recommend to the Beach shareholders that they approve the merger agreement or withdraws, modifies or qualifies such recommendation in a manner adverse to First PacTrust;

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Charles L. Atwood

311,472 \*

Frank J. Biondi, Jr.

14,543 \*

Stephen F. Bollenbach

66,112 \*

Stephen H. Brammell

243,368 \*

Jonathan S. Halkyard

119,301 \*

Ralph Horn

39,521 \*

Gary W. Loveman

1,692,632 \*

R. Brad Martin

30,876 \*

Gary G. Michael

14,605 \*

Robert G. Miller

17,480 \*

Boake A. Sells

46,911 \*

Virginia E. Shanks

51,415 \*

Christopher J. Williams

9,855 \*

Timothy J. Wilmott (c)

686,448 \*

## Edgar Filing: FIRST PACTRUST BANCORP INC - Form 424B3

All directors and executive officers as a group (d)

3,635,553 1.9%

\* Indicates less than 1%

- (a) Shares listed in the table include shares allocated to accounts under the Harrah's Entertainment, Inc. Savings and Retirement Plan as of February 6, 2007. The amounts shown also include the following shares that may be acquired within 60 days pursuant to outstanding stock options or stock appreciation rights: Ms. Alexander, 5,000 shares; Mr. Atwood, 240,333 shares; Mr. Biondi, 6,500 shares; Mr. Bollenbach, 0 shares; Mr. Brammell, 178,798 shares; Mr. Halkyard, 116,512 shares; Mr. Horn, 4,000 shares; Mr. Loveman, 1,522,294 shares; Mr. Martin, 4,000 shares; Mr. Michael, 4,500 shares; Mr. Miller, 4,000 shares; Mr. Sells, 4,000 shares; Ms. Shanks, 33,000 shares; Mr. Williams, 2,000 shares; Mr. Wilmott, 573,219 shares; all directors and executive officers as a group, excluding Mr. Wilmott, 2,852,533 shares.
- (b) The amounts shown include the following rights to shares pursuant to our 1996 Non-Management Directors Stock Incentive Plan or our Amended and Restated 2004 Equity Incentive Award Plan and deferred at the election of the directors: Mr. Biondi, 5,043 shares; Mr. Bollenbach, 1,892 shares; Mr. Horn, 25,421 shares; Mr. Martin, 18,176 shares; Mr. Michael, 5,605 shares; Mr. Miller, 0 shares; Mr. Sells, 23,731 shares; Mr. Williams, 7,855 shares.
- (c) Mr. Wilmott resigned effective January 5, 2007.
- (d) Excludes Mr. Wilmott who resigned effective January 5, 2007.

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**RATIFICATION OF APPOINTMENT OF  
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors, acting on the recommendation of its Audit Committee, has appointed Deloitte & Touche LLP, as our independent registered public accounting firm to examine and report to stockholders on the consolidated financial statements of our Company and its subsidiaries for the year 2007. Representatives of Deloitte & Touche LLP will be present at the Annual Meeting and will be given an opportunity to make a statement. They also will be available to respond to appropriate questions.

The action of the Board of Directors in appointing Deloitte & Touche LLP as the Company's independent registered public accounting firm for the year 2007 will be ratified upon an affirmative vote of the holders of a majority of shares of our common stock present in person or represented by proxy at the Annual Meeting. Abstentions will not be treated as votes for or against this proposal.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF DELOITTE & TOUCHE LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE YEAR 2007.**

Stockholder ratification of the selection of Deloitte & Touche LLP as the Company's independent registered public accounting firm is not required by the Company's bylaws or otherwise. However, the Board of Directors is submitting the selection of Deloitte & Touche LLP to the stockholders for ratification as a matter of corporate practice. If the stockholders fail to ratify the selection, the Board of Directors will reconsider the retention of that firm. Even if the selection is ratified, the Board of Directors, in its discretion, may direct the appointment of a different independent public accounting firm at any time during the year if the Board of Directors determines that such a change would be in the best interests of the Company and its stockholders.

**Other Matters at the Meeting**

The Board of Directors does not know of any matters to be presented at the meeting other than those mentioned in this Proxy Statement. If any other matters are properly brought before the meeting, it is intended that the proxies will be voted in accordance with the best judgment of the person or persons voting the proxies.

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**REPORT OF THE AUDIT COMMITTEE**

To the Board of Directors of Harrah's Entertainment, Inc.:

Our role is to assist the Board of Directors in its oversight of the Company's financial reporting process. As set forth in our charter, the Company's management is responsible for the preparation, presentation and integrity of our financial statements, and for maintaining appropriate accounting and financial reporting principles and policies and internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The independent auditors are responsible for auditing our financial statements and expressing an opinion as to their conformity with generally accepted accounting principles.

We have reviewed and discussed with management the Company's audited financial statements as of and for the year ended December 31, 2006.

We have discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, as amended, as adopted by the Public Company Accounting Oversight Board in Rule 3200T.

We have received and discussed with the independent auditors the written disclosures and the letter from the independent auditors required by Independence Standard No. 1, *Independence Discussions with Audit Committees*, as adopted by the Public Company Accounting Oversight Board in Rule 3600T, and have discussed with the independent auditors their firm's independence.

Based on the review and discussion referred to above, we recommend to the Board of Directors that the financial statements referred to above be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

Barbara T. Alexander, Chairperson

Stephen F. Bollenbach

Gary G. Michael

Christopher J. Williams

*The above Report of the Audit Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates this Report by reference therein.*

**Table of Contents****FEES PAID TO DELOITTE & TOUCHE LLP**

The following table summarizes the aggregate fees paid or accrued by the Company to Deloitte & Touche LLP during 2006 and 2005:

	2006	2005
	(in thousands)	
Audit Fees (a)	\$ 8,199	\$ 6,091
Audit-Related Fees (b)	638	299
Tax Fees (c)	312	352
All Other Fees (d)		1
<b>Total</b>	<b>\$ 9,149</b>	<b>\$ 6,743</b>

(a) **Audit Fees** Fees for audit services billed in 2006 and 2005 consisted of:

Audit of the Company's annual financial statements, including the audits of the various subsidiaries conducting gaming operations as required by the regulations of the respective jurisdictions;

Sarbanes-Oxley Act, Section 404 attestation services;

Reviews of the Company's quarterly financial statements; and

Comfort letters, statutory and regulatory audits, consents and other services related to Securities and Exchange Commission (SEC) matters.

(b) **Audit-Related Fees** Fees for audit-related services billed in 2006 and 2005 consisted of:

Quarterly revenue and compliance audits performed at certain of our properties as required by state gaming regulations;

Financial accounting and reporting consultations;

Sarbanes-Oxley Act, Section 404 advisory services;

Internal control reviews;

Employee benefit plan audits; and

Agreed-upon procedures engagements.

(c) **Tax Fees** Fees for tax services paid in 2006 and 2005 consisted of tax compliance and tax planning and advice:

Fees for tax compliance services totaled \$70,000 and \$61,000 in 2006 and 2005, respectively. Tax compliance services are services rendered based upon facts already in existence or transactions that have already occurred to document, compute, and obtain government approval for amounts to be included in tax filings and consisted of:

- i. Federal, state and local income tax return assistance
- ii. Requests for technical advice from taxing authorities
- iii. Assistance with tax audits and appeals

Fees for tax planning and advice services totaled \$242,000 and \$291,000 in 2006 and 2005, respectively. Tax planning and advice are services rendered with respect to proposed transactions or that alter a transaction to obtain a particular tax result. Such services consisted of:

- i. Purchase and installation of tax return preparation software
- ii. Tax advice related to structuring certain proposed mergers, acquisitions and disposals
- iii. Tax advice related to the alteration of employee benefit plans
- iv. Tax advice related to an intra-group restructuring

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(d) **All Other Fees** These fees consisted of the purchase of market data reports during 2005.

	2006	2005
Memo: Ratio of Tax Planning and Advice Fees and All Other Fees to Audit Fees, Audit-Related Fees and Tax Compliance Fees	0.03:1	0.05:1

In considering the nature of the services provided by the independent auditor, the Audit Committee determined that such services are compatible with the provision of independent audit services. The Audit Committee discussed these services with the independent auditor and Company management to determine that they are permitted under the rules and regulations concerning auditor independence promulgated by the SEC to implement the Sarbanes-Oxley Act of 2002, as well as the American Institute of Certified Public Accountants.

The services performed by Deloitte & Touche LLP in 2006 and 2005 were pre-approved in accordance with the pre-approval policy and procedures adopted by the Audit Committee at its February 26, 2003, meeting, and amended at its April 15, 2004, meeting. This policy describes the permitted audit, audit-related, tax and other services that Deloitte & Touche may perform. Any requests for audit services must be submitted to the Audit Committee for specific pre-approval and cannot commence until such approval has been granted. Except for such services which fall under the *de minimis* provision of the pre-approval policy, any requests for audit-related, tax or other services also must be submitted to the Audit Committee for specific pre-approval and cannot commence until such approval has been granted. Normally, pre-approval is provided at regularly scheduled meetings. However, the authority to grant specific pre-approval between meetings, as necessary, has been delegated to the Chairperson of the Audit Committee. The Chairperson must update the Audit Committee at the next regularly scheduled meeting of any services that were granted specific pre-approval.

In addition, although not required by the rules and regulations of the SEC, the Audit Committee generally requests a range of fees associated with each proposed service. Providing a range of fees for a service incorporates appropriate oversight and control of the independent auditor relationship, while permitting the Company to receive immediate assistance from the independent auditor when time is of the essence.

The policy contains a *de minimis* provision that operates to provide retroactive approval for permissible non-audit, tax and other services under certain circumstances. The provision allows for the pre-approval requirement to be waived if all of the following criteria are met:

1. The service is not an audit, review or other attest service;
2. The estimated fees for such services to be provided under this provision do not exceed a defined amount of total fees paid to the independent auditor in a given fiscal year;
3. Such services were not recognized at the time of the engagement to be non-audit services; and
4. Such services are promptly brought to the attention of the Audit Committee and approved by the Audit Committee or its designee.

The fees approved under the *de minimis* provision were as follows:

	2006	2005
	(in thousands)	
Audit-Related Services	\$	\$ 25
Tax Services	21	
All Other Services		1



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**EXECUTIVE COMPENSATION**

**Compensation Discussion and Analysis**

**Corporate Governance**

***Our Human Resources Committee***

The Human Resources Committee (the Committee or HRC) serves as the Company's compensation committee with the specific purpose of designing, approving, and evaluating the administration of the Company's compensation plans, policies, and programs. The Committee ensures that compensation programs are designed to encourage high performance, promote accountability and align employee interests with the interests of the Company's stockholders. The Committee is also charged with reviewing and recommending the compensation of the Chief Executive Officer and our other senior executives, including all of the named executive officers. The Committee operates under the Harrah's Entertainment, Inc. Corporate Governance Guidelines and the Human Resources Committee Charter. The HRC Charter was last updated on April 26, 2006, and it is reviewed no less than once per year with any recommended changes provided to the Board of Directors of the Company (the Board) for approval.

As of December 31, 2006, the Committee was comprised of four members: Frank J. Biondi, Jr. (Chair), Ralph Horn, Robert G. Miller, and Boake A. Sells. R. Brad Martin was appointed to the Committee in February 2007. William Barron Hilton served on the Committee until his retirement from the Board in April 2006. The qualifications of the Committee members stem from roles as corporate leaders, private investors, and board members of several large corporations. Their knowledge, intelligence, and experience in company operations, financial analytics, business operations, and understanding of human capital management enables the members to carry out the objectives of the Committee.

In fulfilling its responsibilities, the Committee shall be entitled to delegate any or all of its responsibilities to a subcommittee of the Committee or to specified executives of the Company, except that it shall not delegate its responsibilities for any matters where it has determined such compensation is intended to comply with (a) the exemptions under Section 16(b) of the Securities Exchange Act of 1934, or (b) Section 162(m) of the Internal Revenue Code.

***HRC Consultant Relationships***

The Committee has the authority to engage services of independent legal counsel, consultants and subject matter experts in order to analyze, review, and recommend actions with regard to Board compensation, executive officer compensation, or general compensation and plan provisions. The Company provides for appropriate funding for any such services commissioned by the Committee. These consultants are used by the HRC for purposes of executive compensation review, analysis, and recommendations. The HRC has in the past, and will continue in the future, to engage external consultants for the purposes of determining Chief Executive Officer and other senior executive compensation.

***2006 HRC Activity***

During four meetings in 2006, as delineated in the Human Resources Charter and as outlined below, the Committee performed various tasks in accordance with their assigned duties and responsibilities, including:

Chief Executive Officer Compensation: reviewed and approved corporate goals and objectives relating to the compensation of the Chief Executive Officer, evaluated the performance of the Chief Executive Officer in light of these goals and objectives, and established the base compensation, annual bonus and equity compensation of the Chief Executive Officer based on such evaluation.

Other Senior Executive Compensation: set base compensation, annual bonus and equity compensation for all senior executives, which included an analysis relative to our competition peer group.



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Peer Group: reviewed and set the peer group against which to compare compensation levels and practices and approved targeted competitive pay structures.

Executive Compensation Plans: reviewed status of various executive compensation plans, programs and incentives, including the 2005 Senior Executive Incentive Plan, the Annual Management Bonus Plan, the Time Accelerated Restricted Stock Plan, the Company's various deferred compensation plans and the Company's various equity plans.

Director compensation: reviewed compensation policies and benefits for non-management directors.

Legal updates: reviewed and discussed the proposed and final rules issued by the Securities and Exchange Commission related to the disclosure of executive compensation.

### **Roles in establishing compensation**

#### ***Role of company executives in establishing compensation***

When determining the pay levels for the Chief Executive Officer and our other senior executives, the Committee solicits advice and counsel from internal as well as external resources. Internal Company resources include the Chief Executive Officer, Senior Vice President of Human Resources and Vice President of Compensation, Benefits, and Human Resource Systems and Services. The Senior Vice President of Human Resources is responsible for developing and implementing the Company's business plans and strategies for all companywide human resource functions, as well as day-to-day human resources operations. The Vice President of Compensation, Benefits, and Human Resource Systems and Services is responsible for the design, execution, and daily administration of the Company's compensation, benefits, and human resources shared-services operations. Both of these Human Resources executives attend the HRC meetings, at the request of the Committee Chair, and act as a source of informational resources and serve in an advisory capacity. The Corporate Secretary is also in attendance at each of the HRC meetings and oversees the legal aspects of the Company's executive compensation plans, updates the Committee regarding changes in laws and regulations affecting the Company's compensation policies, and records the minutes of each HRC meeting. The Chief Executive Officer also attends HRC meetings.

The HRC Chair communicates directly with the Chief Executive Officer and top Human Resources (HR) executives in order to obtain external market data, industry data, internal pay information, individual and Company performance results, and updates on regulatory issues. The Committee Chair may delegate specific tasks to the HR executives in order to facilitate the decision making process and to assist in the finalization of meeting agendas, documentation, and compensation data for Committee review and approval.

The Chief Executive Officer annually reviews the performance of our senior executives and, based on these reviews, recommends to the HRC compensation for all senior executives, other than his own compensation. The HRC, however, has the discretion to modify the recommendations and makes the final decisions regarding material compensation to senior executives, including base pay, incentive pay (bonus), and equity awards.

#### ***Role of outside consultants in establishing compensation***

The Company's internal HR executives regularly engage outside consultants related to the Company's compensation policies. Standing consulting relationships are held with several global consulting firms specializing in executive compensation, human capital management, and board of director pay practices. During 2006, the services engaged for or by the Human Resources Committee as set forth below:

1. Hay Group was engaged to evaluate non-management director pay. The results of their analysis showed that our current fee structure for board members is consistent with market pay practices and amounts.

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2. Watson Wyatt Worldwide provided us with data and analyses on our existing senior executive total direct compensation and its competitiveness within our peer group. This work also entailed the evaluation of

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our 2005 peer group and recommendations for an updated 2006 peer group. Based on their recommendations, no market adjustments or changes to our variable pay plan targets were made. The results showed that our senior executive total compensation package was in line with our market strategy and internal job worth hierarchy.

3. Watson Wyatt Worldwide was also used for equity plan design and analysis. The analysis included determining the effects of the TARSAP II program, which ended January 1, 2007 with all restricted shares vested. The ending of this program prompted us to review our future retention strategies and our ability to incent long-term business success. The analysis and ensuing HRC discussion points included future plan design considerations such as performance shares, performance vesting, and other mechanisms. In addition plan timing, eligible executives and award sizes were discussed by the HRC, Chief Executive Officer, and HR executives.

4. Watson Wyatt Worldwide provided us with the development of the premium-equivalents for the Company's self-insured medical, dental, vision, and short term disability plans, recommended appropriate reserves for these plans, and reported on the plans' financial performance. In addition, they served as a consultant on plan design, compliance, strategy, and vendor management for these plans.

5. Mercer Human Resources Consulting was retained by the Savings & Retirement Plan and Executive Deferred Compensation Plan Investment Committees to advise these Committees on investment management performance, monitoring, investment policy development, and investment manager searches. Mercer also provides plan design, compliance, and operational consulting for the Company's qualified defined contribution plan and non-qualified deferred compensation plans.

### **Objectives of Compensation Programs**

The Company's executive compensation program is designed to achieve the following objectives:

align our rewards strategy with our business objectives, including enhancing stockholder value and customer satisfaction,

support a culture of strong performance by rewarding employees for results,

attract, retain and motivate talented and experienced executives, and

foster a shared commitment among our senior executives by aligning the Company's and their individual goals. These objectives are ever present and are at the forefront of our compensation philosophy and all compensation design decisions.

### ***Compensation Philosophy***

The Company's compensation philosophy provides the foundation upon which all compensation programs are built. Our goal is to compensate our executives with a program that rewards loyalty, results-driven individual performance, and dedication to the organization's overall success. These principles define our compensation philosophy and are used to align our compensation programs with our business objectives. Further, the HRC specifically outlines in its charter the following duties and responsibilities in shaping and maintaining the Company's compensation philosophy:

Assess whether the components of executive compensation support the Company's culture and business goals;

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Consider the impact of executive compensation programs on stockholders;

Consider issues and approve policies regarding qualifying compensation for executives for tax deductibility purposes;

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Approve the appropriate balance of fixed and variable compensation; and

Approve the appropriate role of performance based and retention based compensation.

The executive compensation program rewards our executives for their contributions in achieving the Company’s mission of providing outstanding customer service and attaining strong financial results as a Company, as discussed in more detail below. The Company’s executive compensation policy is designed to attract and retain high caliber executives and motivate them to superior performance for the benefit of the Company’s stockholders.

Various Company policies are in place to shape our executive pay plans, including:

Salaries are linked to competitive factors, internal equity, and can be increased as a result of successful job performance;

The annual bonus program is competitively based and provides incentive compensation based on our financial performance;

Long-term compensation is tied to enhancing stockholder value and to our financial performance; and

Qualifying compensation paid to senior executives is designed to maximize tax deductibility, where possible.

The executive compensation practices are to compensate executives primarily on performance, with a large portion of potential compensation at risk. The HRC believes that our senior executives should be motivated to deliver financial results to our stockholders and to ensure that our customers receive a great experience when visiting our properties; to that end, the HRC believes that at least 50% of our senior executives’ total compensation should be at risk based on these objectives.

Although many legislative changes and accounting rules have changed over the past several years impacting our executive compensation programs and policies, in 2006 there was only one material change in our executive compensation program. Due to the change in generally accepting accounting principles with regard to the expensing of stock options, the HRC decided to discontinue the issuance of Non-Qualified Stock Options and instead issue Stock Appreciation Rights.

***Compensation Program Design***

The executive compensation program is designed with our executive compensation objectives in mind and is comprised of fixed and variable pay plans, cash and non-cash plans, and short and long-term payment structures in order to recognize and reward executives for their contributions to the Company today and in the future.

The table below reflects our short-term and long-term executive compensation programs:

<b>Short-term</b>	<b>Long-term</b>
<b><i>Fixed and Variable Pay</i></b>	<b><i>Variable Pay</i></b>
Base Salary	Equity Awards
Annual Management Bonus Plan	Time Accelerated Restricted Stock Award Plan
2005 Senior Executive Incentive Plan	Executive Supplemental Savings Plan II

The Company continually assesses and evaluates the internal and external competitiveness for all components of the executive compensation program. Internally, we look at critical and key positions that are directly linked to the profitability and viability of the Company. We ensure that the appropriate hierarchy of jobs is in place with appropriate ratios of Chief Executive Officer compensation to other senior executive compensation. Internal equity is based on qualitative job

evaluation methods, span of control, required skills and



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abilities, and long-term career growth opportunities. Externally, benchmarks are used to provide guidance and to ensure that our ability to attract, retain and recruit talented senior executives is intact. Due to the highly competitive nature of the gaming industry as well as the competitiveness across industries for talented senior executives, it is important for our pay plans to provide us the ability to internally develop executive talent, as well as recruit highly qualified senior executives.

External competitiveness is reviewed with the help of outside consultants and measured by data gathered from published executive compensation surveys and proxy data from peer companies. We define our peer group as one which operates under similar business conditions as the Company's, such as large gaming companies and large companies in the consumer services industries. The companies comprising our peer group for 2006 were:

American Real Estate Partners, L.P.	Las Vegas Sand Corp.
Aramark Corporation	Marriott International, Inc.
Boyd Gaming Corporation	MGM MIRAGE
Carnival Corporation	Penn National Gaming, Inc.
CBS Corporation	Starbucks Corporation
The DIRECTV Group, Inc.	Starwood Hotels & Resorts Worldwide, Inc.
GTECH Holdings Corporation	Station Casinos, Inc.
Hilton Hotels Corporation	Wynn Resorts, Limited.
IAC/InteractiveCorp	YUM! Brands, Inc.

International Game Technology

Median revenue and market capitalization for the 19 peer companies listed above are \$6 billion and \$12 billion, respectively. The Company's revenue and market capitalization each falls at the 68<sup>th</sup> percentile of the peer group.

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The peer group is used to benchmark senior executive compensation, which includes base salary, bonus, and long-term incentive pay. Each compensation element is considered individually and as a portion of total compensation, particularly when applying marketing data, which means that if one element is under or over our target market position, a corresponding adjustment does not necessarily take place if the executive's total compensation is positioned competitively. The Company targets its senior executive total direct compensation or TDC (base + bonus + long-term incentive opportunity) at the 75<sup>th</sup> 90<sup>th</sup> percentile of the peer group. In June 2006, a TDC analysis was conducted in conjunction with Watson Wyatt Worldwide and the findings showed that we were within our 75<sup>th</sup> 90<sup>th</sup> percentile range in base pay, bonus, long-term compensation, and total compensation. We target at the higher end of the market due to the competitive environment of the gaming industry, our goal to attract the most talented executives, and to support our efforts of retaining our executives for long-term business success.

The overall design of the executive compensation program and the elements thereof is a culmination of years of development and compensation plan design adjustments. Each year the plans have been reviewed for effectiveness, competitiveness, and legislative compliance. The current plans have been put into place with the approval of the HRC and in support of the principles of the compensation philosophy and objectives of the Company's pay practices and policies.

### *Impact of Performance on Compensation*

The impact of individual performance on compensation is present in base pay merit increases, setting the annual bonus plan payout percentages as compared to base pay, and the amount of equity awards granted. The

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impact of the Company's financial performance and customer satisfaction is present in the calculation of the annual bonus payment and the intrinsic value of equity awards. Supporting a performance culture and providing compensation that is directly linked to outstanding individual and overall financial results is at the core of the Company's compensation philosophy and human capital management strategy.

For senior executives, the most significant compensation plans that are directly affected by the attainment of performance goals is the Annual Management Bonus Plan and 2005 Senior Executive Incentive Plan. All bonus plan performance criteria, target percentages, and plan awards were set in February 2006 for the bonus payments for fiscal 2006. The financial measurements used to determine the bonus under the Annual Management Bonus Plan are (1) Return on Invested Capital (ROIC), (2) Adjusted Earnings per Share (EPS), and (3) Operating Income (OI). The non-financial measurement used to determine plan payments is customer satisfaction. The financial measure for the 2005 Senior Executive Incentive Plan is earnings before interest, taxes, depreciation and amortization (EBITDA), as more fully described below.

Based on performance goals set by the HRC each year, there are minimum requirements that must be met in order for a bonus plan payment to be provided. Just as bonus payments are increased as performance goals are exceeded, results falling short of goals reduce or eliminate bonus payments. In order for senior executives to receive a bonus, a minimum attainment of 80% of financial and customer satisfaction scores approved by the HRC must be met. The 2007 requirements were set at the February 2007 HRC meeting.

Additionally, equity awards granted to our senior executives are tied to the performance of our public equity. Although the award size is based on individual performance or expected future performance, the economic gain on stock options and stock appreciation rights is dependent upon the public equity market's valuation of Company financial results as evidenced by the price at which stock is traded at any given time. Although restricted stock awards deliver value to our senior executives regardless of the company's financial performance, the senior executives will be rewarded with the increased value of the Company's public stock price.

## **Elements of Compensation**

### ***Elements of Active Employment Compensation and Benefits***

The total direct compensation mix for each Named Executive Officer (NEO) varies. For our Chief Executive Officer, the allocation for 2006 was 20% for base salary, 25% for annual bonus and 55% for equity compensation. For the other NEOs in 2006, the average allocation was 30% for base salary, 25% for annual bonus and 45% for equity compensation. Each compensation element is considered individually and as a component within the total compensation package. Prior compensation and wealth accumulation is considered when making decisions regarding current and future compensation; however, it has not been a decision point used to cap a particular compensation element.

### ***Base Salary***

Salaries are reviewed each year and increases, if any, are based primarily on an executive's accomplishment of various performance objectives and salaries of executives holding similar positions within the peer group, or within our Company. Adjustments in base salary may be attributed to one of the following:

**Merit:** increases in base salary as a reward for meeting or exceeding objectives during a review period. The size of the increases is directly tied to pre-defined and weighted objectives (qualitative and quantitative) set forth at the onset of the review period. The greater the achievement in comparison to the goals, generally the greater the increase. Merit increases can sometimes be distributed as lump-sum bonuses rather than increasing the rate of pay.

**Market:** increases in base salary as a result of a competitive market analysis, or in coordination with a long term plan to pay a position at a more competitive level.



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Promotional: increases in base salary as a result of increased responsibilities associated with a change in position.

Additional Responsibilities: increases in base salary as a result of additional duties, responsibilities, or organizational change. A promotion is not necessarily involved.

Retention: increases in base salary as a result of a senior executive s being recruited by or offered a position by another employer.

All of the above reasons for base salary adjustments for senior executives must be approved by the HRC and are not guaranteed as a matter of practice or in policy.

Our Chief Executive Officer did not receive an increase in base salary in 2006. The HRC determined in 2005 to provide an increase in Mr. Loveman s base salary in order to adjust the salary for the increased responsibilities due to the nearly 100% growth in Company s size as a result of the Caesars Entertainment acquisition. The other NEOs average increase in base salary was 5% in 2006. The average increase for our NEOs reflect promotions and greater responsibilities for our Chief Financial Officer and Vice Chairman of our board of directors.

### ***Senior Executive Incentive Plan***

The 2005 Senior Executive Incentive Plan was approved by the Company s stockholders in 2004 to provide participating executives with incentive compensation based upon the achievement of pre-established performance goals. The 2005 Senior Executive Incentive Plan is designed to comply with Section 162(m) of the Internal Revenue Code of 1986, as amended, which limits the tax deductibility by the Company of compensation paid to executive officers named in the Summary Compensation Table to \$1 million. The Committee approves which officers will participate each calendar year prior to, or at the time of, establishment of the performance objectives for a calendar year. In 2006, Messrs. Loveman, Atwood, Brammell, Wilmott and Halkyard and Ms. Shanks participated in the 2005 Senior Executive Incentive Plan. The 2005 Senior Executive Incentive Plan s objective for 2006 was based on the Company s EBITDA. Under the 2005 Senior Executive Incentive Plan, EBITDA is adjusted for the following income statement line items: write-downs, reserves and recoveries, project opening costs, and any gain or loss on early extinguishment of debt. Bonus amounts were set at 0.5% of EBITDA.

The Committee has discretion to decrease bonuses under the 2005 Senior Executive Incentive Plan and it has been the Committee s practice to decrease the bonuses by reference to the achieved performance goals and bonus formulas used under the Annual Management Bonus Plan discussed below. See the Summary Compensation Table for specific bonus amounts awarded to our NEOs in 2007 for 2006 performance. The HRC used their discretion to reduce the bonus amounts paid to the NEOs and other senior executives in order to align their payments with the formula outlined in the Annual Management Bonus Plan Administrative Rules.

The Committee has determined that the executives named in the Summary Compensation Table and seven other officers will participate in the 2005 Senior Executive Incentive Plan for the year 2007. As noted above, the Committee has authority to reduce bonuses earned under the 2005 Senior Executive Incentive Plan and also has authority to approve bonuses outside of the 2005 Senior Executive Incentive Plan to reward executives for special personal achievement.

### ***Annual Management Bonus Plan***

The Annual Management Bonus Plan (the plan ) provides the opportunity for the Company s senior executives and other participants to earn an annual bonus payment based on meeting corporate financial and non-financial goals. These goals are set at the beginning of each plan year by the HRC. Under the plan, the goals can pertain to operating income, pretax earnings, return on sales, earnings per share, a combination of objectives,

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or another objective approved by the Committee. The goals may change annually to support the Company's short or long-term business objectives. For the 2006 plan year, the plan's goal consisted of a combination of earnings per share, income from operations, return on invested capital, and customer satisfaction improvement. For the 2007 plan year, the objectives remain the same as 2006. Although officers that participate in the 2005 Senior Executive Incentive Plan do not participate in the Annual Management Bonus Plan, goals are set for all officers under this plan. The measurement used to gauge the attainment of these goals is called the corporate score.

Financial goals are comprised of these separate measures, representing up to 90 percent of the corporate score.

**Adjusted Earnings Per Share:** This is a common measure of company performance followed closely by investors and the business press. This measure helps us focus on the value we deliver to stockholders. Adjusted earnings per share is earnings per share adjusted for pre-opening costs, write-downs, reserves and recoveries, and unusual non-operating costs. Adjusted Earnings Per Share comprised 45% of the corporate score for 2006.

**Operating Income:** As income is the lifeblood of any organization, the Committee believes that this is an excellent indication of our overall business health. Although this measure includes depreciation on assets, amortization, and corporate expenses, our officers have the ability to influence the outcome of this measure by supporting revenue generating business objectives and decreasing expenses whenever possible. Operating Income comprised 22.5% of the corporate score for 2006.

**Return on Invested Capital:** As the Company continues to make large, innovative investments, such as investments in capital improvements at existing properties, development of new properties, it is imperative that we generate attractive returns for our investors. Annual ROIC performance is determined by dividing the after-tax operating income by average invested capital. Return on Invested Capital comprised 22.5% of the corporate score for 2006.

Non-financial goals consist of one key measurement: customer satisfaction. We distinguish ourselves from competitors by providing excellent customer service. Supporting our property team members who have daily interaction with our external customers is critical to maintaining and improving guest service. Customer satisfaction comprised 10% of the corporate score for 2006.

In February 2006, the HRC determined the thresholds for the corporate score for 2006. Bonus plan payments would only be paid when all three financial measures are at least 80 percent of target. Additionally, customer satisfaction must achieve a one percent or higher shift in non-A to A scores.

After the corporate score has been determined, a bonus matrix approved by the Committee provides for bonus amounts of participating executive officers and other participants that will result in the payment of a specified percentage of the participant's salary if the target objective is achieved. This percentage of salary is adjusted upward or downward based upon the level of corporate score achievement.

In April 2005, the Committee reviewed a report on executive compensation that it commissioned from the Hay Group. Based on that report, the Committee approved an enhancement to the bonus target percentages for the Chief Executive Officer and other senior executives. This enhancement affects the target bonus percentages by applying a multiplier triggered by a corporate score of 1.1 or greater. The multiplier starts at 121% and caps at 250% for a corporate score of 1.1 and 1.5, respectively.

After the end of the fiscal year, the Chief Executive Officer assesses the Company's performance against the financial and customer satisfaction targets set by the HRC. Taking into account the Company's performance against the targets set by the HRC, the Chief Executive Officer will develop and recommend a performance score of 0 to 1.5 to the Committee.

The Committee has the authority under the Annual Management Bonus Plan to adjust any goal or bonus points with respect to executive officers. These decisions are subjective and based generally on a review of the circumstances affecting results to determine if any events were unusual or unforeseen.



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In 2006, the HRC reviewed the corporate score and approved adjustments based on information presented by the Chief Executive Officer. The HRC, similarly, approved adjustments to the corporate score for 2005. The adjustments approved by the HRC in 2006 were based on unexpected occurrences that were beyond the control of the Company's management (such as closure of our casinos in Atlantic City in July 2006 due to a state-wide government shutdown), changes implemented after our budgetary process was completed (such as over-estimating options expense due to extending the vesting terms for equity grants in 2006), acquisitions that were not planned for (such as our acquisition in 2006 of London Clubs International plc) and costs that were incurred in 2006 but are expected to positively impact the Company's revenues and profitability in future years (such as development expenses).

The 2006 corporate score of .83 was approved by the HRC in February 2007 and payments will be made in accordance with the Annual Management Bonus Plan based on this score. For 2006, the HRC approved bonuses as a percent of eligible earnings for the Named Executive Officers as follows: 125% Mr. Loveman, 104% for Mr. Wilmott, 104% for Mr. Atwood, 56% for Mr. Halkyard, 58% for Mr. Brammell and 50% for Ms. Shanks.

### ***Equity Awards***

As approved by stockholders in 2006, the Harrah's Entertainment, Inc. Amended and Restated 2004 Equity Incentive Award Plan (2004 EIAP) promotes the success and enhances the value of the Company by linking the personal interests of the members of the Board, employees, and senior executives to those of Company stockholders and by providing such individuals with an incentive for outstanding performance to generate superior returns to Company stockholders. The 2004 EIAP is intended to provide flexibility to the Company in its ability to motivate, attract, and retain the services of key employees. The 2004 EIAP provides for the grant of stock options, both incentive stock options and nonqualified stock options, restricted stock, stock appreciation rights, performance shares, performance stock units, dividend equivalents, stock payments, deferred stock, restricted stock units, other stock-based awards, and performance-based awards to eligible individuals.

At each HRC meeting, any recommended equity grants are presented to the HRC for approval. The annual grant process for all eligible employees takes place during the summer HRC meeting, which took place in July for 2006. The actual timing of the annual grant process is driven by the natural building of pay elements as the year progresses (base, bonus, and then equity). In the first and second quarters of the calendar year, the Company's management team is heavily involved in performance reviews, corresponding merit increases, and bonus payments. During the second and third quarters, the Company focuses on the equity grants. The second reason for the timing of grants is simply a product of the work load throughout the year, and with a summer equity grant date the administrative burden placed on the Company can be more easily absorbed. Lastly, the timing of the equity grants corresponds with the annual review of base salary by the HRC for our Chief Executive Officer and the other senior executives of the Company. Grant approvals can also be placed on the HRC agendas through the year, if necessary. All equity grant dates coincide with the date the award is approved by the HRC, and as prescribed by the 2004 EIAP, the grant price is the average of the high and low price on the date prior to grant.

In 2006, equity awards granted in the form of stock appreciation rights were approved by the Committee for executive officers under the Company's 2004 Long Term Incentive Plan and 2004 EIAP. Stock appreciation rights and stock options granted after 2001 have a term of seven years, with the Committee having authority to set different periods of time for vesting and the term of the options. The Committee determines awards that it believes will be suitable for providing an adequate incentive for both performance and retention purposes. The dollar value of the award is determined by applying conventional methods for valuing equity awards.

The HRC approves the award grants after considering the recommendations made by the Chief Executive Officer for senior executives, and determines the grant size for the Chief Executive Officer.

Generally, the size of an equity grant is based on a target percent of base pay, but is adjusted higher or lower from the target percent based on individual performance, job responsibilities, and expected future performance.



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The award size is driven by the desired mix of total direct compensation, with long-term equity being the primary component of NEO pay. 2006 grants to NEOs were all in the form of stock appreciation rights rather than restricted stock or a combination thereof in order to solidify the relationship between senior executive performance and appreciation in stock price. The target percentages of equity grant value were created in a hierarchical structure with the Chief Executive Officer receiving the largest target grant amount of 300% of base pay, our Chief Operating Officer and Chief Financial Officer also at the 300% of base pay level, and all other NEOs target award amounts valued at 145% of base pay. This structure was proposed by senior management and approved by the HRC. Data compiled from the Hay Group and Watson Wyatt Worldwide provided relevant market data, long-term equity pay practices, and plan design guidance which was used to help shape the plan and target percentages. The target percentages were also set with industry market practice and the Company's compensation philosophy and objectives in mind. All equity awards are determined with previous and/or future grants in mind, taking into consideration total wealth accumulation for each senior executive.

Equity grants that are made outside of the of the normal annual grant process have been, and will continue to be, issued under the terms of an employment agreement, promotion or new hire arrangement, or as a special retention grant.

In addition to equity provided under the annual grant process, certain of our executive officers participated in a Time Accelerated Restricted Stock Award Plan (the TARSAP Program ) designed to motivate and retain the Company's key executives in the Company's current competitive environment and with a view to enhancing stockholder value. Pursuant to the TARSAP Program, certain key executives were granted restricted stock awards (the Restricted Shares ) pursuant to the Company's 1990 Restricted Stock Plan.

In 2000, the Committee approved the TARSAP II Program, and our executive officers, other than Mr. Loveman and Mr. Halkyard, received awards under TARSAP II. The last award under TARSAP II was made in May 2004. These awards fully vested on January 1, 2007. No replacement plan for TARSAP II has been implemented to date.

### ***Policy Concerning Tax Deductibility***

The HRC's policy with respect to qualifying compensation paid to its executive officers for tax deductibility purposes is that executive compensation plans will generally be designed and implemented to maximize tax deductibility. However, non-deductible compensation may be paid to executive officers when necessary for competitive reasons or to attract or retain a key executive, or where achieving maximum tax deductibility would be considered disadvantageous to the best interests of the Company. For 2006, Messrs. Brammell, Loveman and Wilmott received total compensation over the \$1 million deductibility limit so that \$775,530, \$2,303,131 and \$142,480, respectively, of their total compensation will not be deductible by the Company. The Company's 2005 Senior Executive Incentive Plan is intended to comply with Section 162(m) of the Internal Revenue Code so that annual bonuses paid under these plans will be eligible for deduction by the Company. See Senior Executive Incentive Plan above.

### ***Stock Ownership Requirements***

In 2002, our board of directors adopted a policy requiring our executives to own shares of our common stock, excluding stock options or unvested restricted stock, having a value equal to or greater than an established multiple ranging between one times and three times the executive's annual base salary. Mr. Loveman is required to own shares having a value equal to three times his annual base salary, Messrs. Atwood and Halkyard and are required to own shares having a value equal to twice their annual base salary, and Mr. Brammell and Ms. Shanks are required to own shares having a value equal to his or her annual base salary. Executives have three years from the date they are elected to their positions to comply with the guidelines. The policy required executives that were in their positions for the last three years to achieve their mandatory level of stock ownership on or before January 1, 2007. All of our named executive officers complied with our stock ownership guidelines as of that date.

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***Chief Executive Officer's Compensation***

The objectives of our Chief Executive Officer are approved annually by the Committee. These objectives are revisited each year. The objectives for 2006 were:

developing and implementing the Company's strategic direction;

maximizing stockholder value and increasing the Company's earnings per share to established goals;

fostering the Company's commitment to financial integrity, legal and regulatory compliance, and ethical business conduct;

preserving and enhancing the Company's leadership in promoting responsible gaming;

assuring customer satisfaction and loyalty through operational and service excellence and technological innovation;

enhancing employee effectiveness by creating a high performance employee culture and advancing diversity throughout the organization; and

pursuing new development opportunities for the Company.

The Committee's assessment of the Chief Executive Officer's performance is based on a subjective review of performance against these objectives. Specific weights may be assigned to particular objectives at the discretion of the Committee, and those weightings, or more focused objectives are communicated to the Chief Executive Officer at the time the goals are set forth. However, no specific weights were set against the Chief Executive Officer's objectives in 2006.

As Chief Executive Officer, Mr. Loveman's base salary was based on his performance, his responsibilities and the compensation levels for comparable positions in other companies in the hospitality, gaming, entertainment, restaurant and retail industries. Merit increases in his salary are a subjective determination by the Committee, which bases its decision upon his prior year's performance versus his objectives as well as upon an analysis of competitive salaries.

The Committee used the 2005 Senior Executive Incentive Plan to determine the Chief Executive Officer's bonus for 2006. Under this plan, bonus is based on the Company achieving a specific financial objective. For 2006, the objective was based on the Company's EBITDA, as more fully described above. The HRC has discretion to reduce bonuses (as permitted by Section 162(m) of the Internal Revenue Code), and it is the normal practice of the Committee to reduce the Chief Executive Officer's bonus by reference to the achievement of performance goals and bonus formulas used under the Annual Management Bonus Plan. For 2006, the Committee reviewed the Chief Executive Officer's performance against his objectives, and determined to pay him a bonus in an amount that would have been paid under the Annual the Annual Management Bonus Plan if he was a participant under that plan, as more fully described above.

The Committee's policy to grant significant equity awards to the Chief Executive Officer that are deemed highly competitive was used to grant the most recent equity grant. In July 2006, an equity grant was made in conjunction with the Company's annual long-term compensation award process to the CEO. Mr. Loveman received 350,000 Stock Appreciation Rights, as more fully described in the Grants of Plan-Based Awards table set forth herein. These Stock Appreciation Rights are scheduled to vest in one-fifth increments on June 30 in 2007, 2008, 2009, 2010 and 2011.

*Personal Benefits and Perquisites*

During 2006, all of our NEOs received a financial counseling reimbursement benefit, and were eligible to participate in the Company's deferred compensation plan, the Executive Supplemental Savings Plan II, and the Company's health and welfare benefit plans, including the Harrah's Savings and Retirement Plan. The NEOs

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also received matching amounts from the Company pursuant to the plan documents, which are the same for all employees eligible for these plans. Amounts received by each NEO pursuant to these benefits are included in the Summary Compensation Table set forth herein.

Additionally, we provided for the personal use of company aircraft to both Messrs. Loveman and Wilmott. Lodging expenses were incurred by Mr. Loveman for use of his Las Vegas-based residence located at Caesars Palace. We also provided personal security for Mr. Loveman and his family. The decision to provide Mr. Loveman with the personal security benefit was prompted by the results of an analysis provided by an independent professional consulting firm specializing in executive safety and security. Based on these results, the HRC approved personal security services to Mr. Loveman and his family.

Each of these perquisites is more fully described in the Summary Compensation Table set forth herein.

Our use of perquisites as an element of compensation is limited. We do not view perquisites as a significant element of our comprehensive compensation structure, but do believe that they can be used in conjunction with base salary to attract, motivate and retain individuals in a competitive environment.

Under the Company's group life insurance program, senior executives including the NEOs are eligible for an employer provided life insurance benefit equal to three times their base annual salary, with a maximum benefit of \$5.0 million. Mr. Loveman is provided with a life insurance benefit of \$3.5 million under our group life insurance program and additional life insurance policies with a benefit of \$2.5 million.

In addition to the standard group long term disability benefit, the Chief Executive Officer and all other NEOs are covered under a Company-paid individual long-term disability insurance policy paying an additional \$5,000 monthly benefit. Mr. Loveman is also covered under a supplemental long-term disability policy with a maximum benefit of \$5,000,000 payable in one lump sum.

***Elements of Post-Employment Compensation and Benefits***

***Employment Arrangements***

**Chief Executive Officer**

Mr. Loveman's employment agreement provides that Mr. Loveman will serve as Chief Executive Officer and President from January 1, 2003 until January 1, 2008. Mr. Loveman's initial annual salary at January 1, 2003 was \$1,400,000, subject to annual merit reviews by the Human Resources Committee. His annual salary was \$2,000,000 as of December 31, 2006. Pursuant to the agreement, Mr. Loveman received a grant of stock options valued at \$5,000,000 at the time Mr. Loveman's agreement was executed and a deferrable restricted stock grant having an estimated value of \$5,000,000 (based on the price of the common stock on the date of the grant) pursuant to the Company's 2001 Executive Stock Incentive Plan (the Promotional Award). The stock options have a term of seven years. Both the stock options and the restricted stock vested 25% on January 1, 2006, and 25% on January 1, 2007, and will vest 50% on January 1, 2008, based on his continued employment.

Pursuant to his employment agreement, Mr. Loveman is entitled to participate in the incentive compensation programs and other benefits accorded to our senior officers, including eligibility to receive bonus compensation and long-term incentive compensation (equity awards) as approved by the Human Resources Committee. In addition, Mr. Loveman received an individual supplemental long-term disability policy with a maximum benefit of \$5,000,000 payable in one lump sum fully paid by the Company during the term of his agreement. Mr. Loveman is also entitled to life insurance with a death benefit of at least three times his base annual salary. The agreement also requires Mr. Loveman, for security purposes, to use the Company's aircraft, or other private aircraft, for himself and his family for business and personal travel. The agreement also provides that Mr. Loveman will be provided with accommodations while performing his duties in Las Vegas, and the Company will also pay Mr. Loveman a gross-up payment for any taxes incurred for such accommodations. Our Board can terminate the employment agreement with or without cause, and Mr. Loveman can resign, at any time.

If the Company terminates the agreement without cause, or if Mr. Loveman resigns for good reason:

Mr. Loveman's salary and right to participate in Company benefit plans (other than bonus and long-term incentive plans) will continue for a period of two years beginning on the date of termination;

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His stock options and restricted stock will continue to vest during this two-year period (including 100% vesting upon a change in control), with any unvested stock options that do not vest before the expiration of the two-year period to be forfeited, except those provided pursuant to the Promotional Award;

The Promotional Award will continue to vest according to its regular vesting schedule; and

He will receive any bonus accrued for the prior year and pro-rata for the current year up to the date of termination.  
Cause is defined under the agreement as:

(i) the willful failure of Executive to perform substantially Executive's duties with the Company (as described in agreement) or to follow a lawful reasonable directive from the Board (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to Executive by the Board which specifically identifies the manner in which the Board believes that Executive has not substantially performed Executive's duties or to follow a lawful reasonable directive and Executive is given a reasonable opportunity (not to exceed thirty (30) days) to cure any such failure to substantially perform, if curable;

(ii) (A) any willful act of fraud, or embezzlement or theft by Executive, in each case, in connection with Executive's duties hereunder or in the course of Executive's employment hereunder or (B) Executive's admission in any court, or conviction of, a felony involving moral turpitude, fraud, or embezzlement, theft or misrepresentation, in each case, against the Company.

Termination by the Company of this Agreement for Cause shall also include (A) Executive being found unsuitable for or having a gaming license denied or revoked by the gaming regulatory authorities in Arizona, California, Colorado, Illinois, Indiana, Iowa, Kansas, Louisiana, Mississippi, Missouri, Nevada, New Jersey, New York, and North Carolina and (B) (i) Executive's willful and material violation of, or noncompliance with, any securities laws or stock exchange listing rules, including, without limitation, the Sarbanes-Oxley Act of 2002, provided that such violation or noncompliance resulted in material economic harm to the Company, or (ii) a final judicial order or determination prohibiting Executive from service as an officer pursuant to the Securities and Exchange Act of 1934 or the rules of the New York Stock Exchange.

Good Reason is defined under the agreement as, without Executive's express written consent, the occurrence of any of the following circumstances unless, in the case of paragraphs (a), (d), (e) or (f), such circumstances are fully corrected prior to the date of termination specified in the written notice given by Executive notifying the Company of his resignation for Good Reason:

(a) The assignment to Executive of any duties materially inconsistent with his status as Chief Executive Officer of the Company or a material adverse alteration in the nature or status of his responsibilities;

(b) The requirement that Executive report to anyone other than the Board;

(c) The failure of Executive to be elected/re-elected as a member of the Board;

(d) A reduction by the Company in his annual base salary of One Million One Hundred Thousand Dollars (\$1,100,000.00) or as the same may be increased from time to time by the HRC;

(e) The relocation of the Company's principal executive offices from Las Vegas, Nevada, to a location more than fifty (50) miles from such offices, or the Company's requiring Executive either: (i) to be based anywhere other than the location of the Company's principal offices in Las Vegas (except for required travel on the Company's business to an extent substantially consistent with Executive's present business travel obligations); or (ii) to relocate his primary residence;

(f) The failure by the Company to pay to him any material portion of his current compensation, except pursuant to a compensation deferral elected by Executive, or deferral compensation required by this



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Agreement, or to pay to Executive any material portion of an installment of deferred compensation under any deferred compensation program of the Company within thirty (30) days of the date such compensation is due;

(g) Except as permitted by this Agreement, the failure by the Company to continue in effect any compensation plan in which Executive is participating on the date of this Agreement which is material to Executive's total compensation, including but not limited to, the Company's annual bonus plan, the ESSP, or the Stock Option Plan or any substitute plans, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan, or the failure by the Company to continue Executive's participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount of benefits provided and the level of Executive's participation relative to other participants at Executive's grade level;

(h) The failure by the Company to continue to provide Executive with benefits substantially similar to those enjoyed by him under the Savings and Retirement Plan and the life insurance, medical, health and accident, and disability plans in which Executive is participating on the date of this Agreement, the taking of any action by the Company which would directly or indirectly materially reduce any of such benefits or deprive Executive of any material fringe benefit enjoyed by Executive on the date of this Agreement, except as permitted by this Agreement; or

(i) The failure of the Company to obtain a satisfactory agreement from any successor to assume and agree to perform this Agreement.

If the Company terminates the agreement for cause, Mr. Loveman's unvested stock options and any shares of unvested restricted stock, including those received as part of his Promotional Award, will be cancelled and his salary will end as of the termination date.

After his employment with the Company terminates for any reason, Mr. Loveman will be entitled to participate in the Company's group health insurance plans applicable to corporate executives, including family coverage, for his lifetime. The Company will pay 80% of the premium on an after-tax basis for this coverage, and Mr. Loveman will incur imputed taxable income equal to the amount of the Company's payment. When Mr. Loveman becomes eligible for Medicare coverage, the Company's group health insurance plan will become secondary, and Mr. Loveman will be eligible for the same group health benefits as normally provided to our other retired management directors. He will incur imputed taxable income equal to the premium cost of this benefit.

If a change in control were to occur during the term of Mr. Loveman's employment agreement, and his employment was terminated involuntarily or he resigned for good reason within two years after the change in control, or if his employment was involuntarily terminated within six months before the change in control under defined circumstances, Mr. Loveman would be entitled to receive the severance benefits under his severance agreement (if then in force) in lieu of the salary and rights under his employment agreement. This benefit would also apply if a change in control were to occur under certain circumstances and Mr. Loveman voluntarily terminated his employment during a 30-day period following the first anniversary of the change in control. The pending acquisition of the Company by affiliates of Texas Pacific Group and Apollo Management will be a change in control of the Company upon consummation.

The agreement provides that Mr. Loveman will not compete with the Company for a period of two years after termination of his active full time employment (which for this purpose does not include the salary continuation period).

### **Named Executive Officer Employment Arrangements**

We also have employment agreements with our other NEOs and members of our senior management team, which provides for a base salary, subject to merit increases as our Human Resources Committee of the Board of



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Directors may approve. Mr. Brammell's agreement expires January 8, 2008; Mr. Atwood's agreement expires January 27, 2010; Mr. Halkyard's agreement expires December 22, 2007 and Ms. Shanks agreement expires on February 25, 2008.

During the term of these employment agreements, each executive is entitled to participate in the incentive compensation programs and other benefits accorded to our senior officers, including eligibility to receive bonus compensation and equity awards under the 2004 EIAP as approved by the Human Resources Committee. The Company can terminate the employment agreement immediately with or without cause upon 30 days prior written notice. The executive can voluntarily resign upon 30 days prior written notice, or upon six months prior written notice if he or she is going to work or act in competition with the Company.

If the Company terminates any of these agreements without cause or does not renew the agreement upon expiration, the executive will receive eighteen months' salary continuation and will not compete with the Company during that time. Stock options, restricted stock and stock appreciation rights will generally continue to be exercisable and to vest during the salary continuation, including vesting upon a change in control. If there were a change in control during the salary continuation and noncompete period, any unvested stock options would vest.

If the executive attains age fifty (50) and, when added to his or her number of years of continuous service with the company, including any period of salary continuation, the sum of his or her age and years of service equals or exceeds sixty-five (65), and at any time after the occurrence of both such events Executive's employment is terminated and his or her employment then terminates other than for cause, he or she will be entitled to lifetime coverage under our group health insurance plan. The executive will be required to pay 20% of the premium for this coverage and the Company will pay the remaining premium, which will be imputed taxable income to the executive. This insurance coverage terminates if the executive competes with the Company.

Mr. Atwood, who participates in the Executive Deferred Compensation Plan ( EDCP ), earns the retirement rate as provided in the EDCP if his employment is terminated without cause or if we elect not to renew the agreement when it expires. Mr. Atwood receives service credit under the EDCP for any salary continuation and noncompete period.

### ***Severance Agreements***

We have entered into severance agreements with each of the NEOs. The severance agreements relate to a change in control. We believe these agreements reinforce and encourage the attention and dedication of our executives if they are faced with the possibility of a change in control of the Company that could affect their employment. Mr. Loveman's Severance Agreements became effective January 1, 2003. Ms. Shanks' Severance Agreement became effective October 1, 2003. The Severance Agreements of Messrs. Atwood, Halkyard and Brammell became effective January 1, 2004. Mr. Wilmott's severance agreement terminated upon his resignation from the Company in January 2007. The pending acquisition of the Company by affiliates of Texas Pacific Group and Apollo Management will be a change in control of the Company, as defined in the severance agreements, upon consummation.

The severance agreements provide, under the circumstances described below, for a compensation payment (the Compensation Payment ) of three times the executive's annual compensation (which includes salary and bonus amounts but excludes restricted stock vestings and compensation or dividends related to restricted stock or stock options).

Pursuant to his severance agreement, Mr. Loveman is entitled to a Compensation Payment if (i) within two years after a change in control of the Company, his employment terminates involuntarily or if he resigns for good reason; (ii) his employment is terminated without cause within six months before a change in control (under

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defined circumstances); or (iii) he voluntarily terminates his employment during a 30-day period following the first anniversary of a change in control under certain circumstances. Messrs. Atwood s, Halkyard, and Brammell s and Ms. Shanks severance agreements entitle each of them to Compensation Payments after a change in control if, within two years of the change in control, their employment is terminated involuntarily, or they resign with good reason, or if their employment is terminated without cause within six months before a change in control.

Good Reason is defined under the severance agreements as:

without the executive s express written consent, the occurrence after Change in Control of the Company, of any of the following circumstances unless such circumstances occur by reason of your death, disability or the executive s voluntary termination or voluntary retirement, or, in the case of paragraphs (i), (ii), (iii), (iv) or (v), such circumstances are fully corrected prior to the date of termination, respectively, given in respect thereof:

(i) The assignment to executive of any duties materially inconsistent with his or her status immediately prior to the Change in Control or a material adverse alteration in the nature or status of his or her responsibilities;

(ii) A reduction by the Company in executive s annual base salary as in effect on the date hereof or as the same may have been increased from time to time;

(iii) The relocation of the Company s executive offices where executive is located just prior to the Change in Control to a location more than fifty (50) miles from such offices, or the Company s requiring executive to be based anywhere other than the location of such executive offices (except for required travel on the Company s business to an extent substantially consistent with your business travel obligations during the year prior to the Change in Control);

(iv) The failure by the Company to pay to executive any material portion of current compensation, except pursuant to a compensation deferral elected by executive required by agreement, or to pay any material portion of an installment of deferred compensation under any deferred compensation program of the Company within thirty (30) days of the date such compensation is due;

(v) Except as permitted by any agreement, the failure by the Company to continue in effect any compensation plan in which executive is participating immediately prior to the Change in Control which is material to executive s total compensation, including but not limited to, the Company s annual bonus plan, the ESSP, or the Stock Option Plan or any substitute plans, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan, or the failure by the Company to continue executive s participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount of benefits provided and the level of your participation relative to other participants at grade level;

(vi) The failure by the Company to continue to provide executive with benefits substantially similar to those enjoyed by executive under the Savings and Retirement Plan and the life insurance, medical, health and accident, and disability plans in which executive is participating at the time of the Change in Control, the taking of any action by the Company which would directly or indirectly materially reduce any of such benefits or deprive executive of any material fringe benefit enjoyed by executive at the time of Change in Control, except as permitted in any agreement;

(vii) The failure of the Company to obtain a satisfactory agreement from any successor to assume and agree to perform this Agreement, as contemplated in Section 5 hereof; or

(viii) Any purported termination of executive s employment by the Company which is not effected pursuant to a notice of termination satisfying the requirements set forth in the severance agreement.

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A change in control is defined in the Severance Agreements as the occurrence of any of the following:

1. any person becomes the beneficial owner of 25% or more of our then outstanding voting securities, regardless of comparative voting power of such securities;
2. within a two-year period, members of the Board of Directors at the beginning of such period and their approved successors no longer constitute a majority of the Board;
3. the closing of a merger or other reorganization where the voting securities of the Company prior to the merger or reorganization represent less than a majority of the voting securities after the merger or consolidation; or
4. stockholder approval of the liquidation or dissolution of the Company.

In addition to payments described above, under the severance agreements, NEOs receive accelerated vesting of certain stock options, or if the executive's employment terminates subsequent to a change in control or within six months before the change in control under defined circumstances, accelerated vesting of all options ( Accelerated Payments ). Any unvested restricted stock and stock options granted prior to 2001 will vest automatically upon a change in control regardless of whether the executive is terminated, as will any stock options granted in 2001 or later which are not assumed by the acquiring company. All unvested stock options granted in 2001 and later, including those assumed by the acquiring company, will vest if the executive becomes eligible for a Compensation Payment. At the election of the Company, the Company may cash out all or part of the executive's outstanding and unexercised options, with the cash payment based upon the higher of the closing price of the Company's common stock on the date of termination and the highest per share price for Company common stock actually paid in connection with any change in control.

None of the executives is entitled to a Compensation Payment after a change in control if their termination is (i) by the Company for cause, or (ii) voluntary and not for good reason (as defined above) except as permitted for Mr. Loveman during a 30-day period following the first anniversary of the change in control.

For purposes of the severance agreements, Cause shall mean:

(i) willful failure to perform substantially duties or to follow a lawful reasonable directive from a supervisor or the Board, as applicable, (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered by a supervisor or the Board, as applicable, which specifically identifies the manner in which a supervisor or the Board, as applicable, believe that the executive has not substantially performed his or her duties or to follow a lawful reasonable directive and you are given a reasonable opportunity (not to exceed thirty (30) days) to cure any such failure to substantially perform, if curable;

(ii) (A) any willful act of fraud, or embezzlement or theft, in each case, in connection with the executive's duties to the Company of in the course of employment with the Company or (B) admission in any court, or conviction of, a felony involving moral turpitude, fraud, or embezzlement, theft or misrepresentation, in each case against the Company;

(iii) being found unsuitable for or having a gaming license denied or revoked by the gaming regulatory authorities in Arizona, California, Colorado, Illinois, Indiana, Iowa, Kansas, Louisiana, Mississippi, Missouri, Nevada, New Jersey, New York and North Carolina;

(iv) (A) willful and material violation of, or noncompliance with, any securities laws or stock exchange listing rules, including, without limitation, the Sarbanes Oxley Act of 2002 if applicable, provided that such violation or noncompliance resulted in material economic harm to the Company, or (B) a final judicial order of determination prohibiting the executive from service as an officer pursuant to the Securities Exchange Act of 1934 and the rules of the New York Stock Exchange.

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If an executive officer becomes entitled to payments under a severance agreement (Severance Payments) which is subject to a federal excise tax imposed on the executive (the Excise Tax), the severance agreements require the Company to pay the executive an additional amount (the Gross-Up Payment) so that the net amount retained by the executive after deduction of any Excise Tax on the Severance Payments and all Excise Taxes and other taxes on the Gross-Up Payment, will equal the initial Severance Payments less normal taxes.

Each severance agreement has a term of one calendar year and is renewed automatically each year starting January 1 unless we give the executive six months notice of non-renewal. In cases where a potential change in control (as defined) has occurred or the non-renewal is done in contemplation of a potential change in control, we must give the executive one year's notice. Each severance agreement provides that if a change in control occurs during the original or extended term of the agreement, then the agreement will automatically continue in effect for a period of 24 months beyond the month in which the change in control occurred.

## **Deferred Compensation Plans**

The Company has one deferred compensation plan, the Executive Supplemental Savings Plan II (ESSP II), currently active, although there are five other plans with assets in them: Harrah's Executive Deferred Compensation Plan (EDCP), the Harrah's Executive Supplemental Savings Plan (ESSP), Harrah's Deferred Compensation Plan, the Restated Park Place Entertainment Corporation Executive Deferred Compensation Plan, and the Caesars World, Inc. Executive Security Plan.

Further deferrals into the EDCP were terminated in 2001 when the Human Resources Committee approved the ESSP, which permits certain key employees, including executive officers, to make deferrals of specified percentages of salary and bonus. No deferrals were allowed after December 2004 into ESSP, and the Company approved the ESSP II, which complies with the American Jobs Creation Act of 2004 and allowed deferrals starting in 2005. ESSP II, similar to ESSP, allows participants to choose from a selection of varied investment alternatives and the results of these investments will be reflected in their deferral accounts. To assure payment of these deferrals, a new escrow fund was established similar to the escrow fund for the EDCP. The new escrow fund is funded to match the various types of investments selected by participants for their deferrals.

ESSP and ESSP II do not provide a fixed interest rate, as the EDCP does, and therefore the market risk of plan investments is borne by participants rather than the Company. To encourage EDCP participants to transfer their account balances to the ESSP thereby reducing the Company's market risk, the Company approved a program in 2001 that provided incentives to a limited number of participants to transfer their EDCP account balances to the ESSP. Under this program, a currently employed EDCP participant who was five or more years away from becoming vested in the EDCP retirement rate, including any executive officers who were in this group, received an enhancement in his or her account balance if the participant elected to transfer the account balance to the ESSP. The initial enhancement was the greater of (a) twice the difference between the participant's termination account balance and retirement account balance, (b) 40% of the termination account balance, not to exceed \$100,000, or (c) four times the termination account balance not to exceed \$10,000. Upon achieving eligibility for the EDCP retirement rate (age 55 and 10 years of service), the participant electing this program will receive an additional enhancement equal to 50% of the initial enhancement. Messrs. Brammell, Loveman and Wilmott elected to participate in this enhancement program, and therefore no longer have accounts in the EDCP.

While further deferrals into the EDCP were terminated, and while most EDCP participants transferred their EDCP account balance to the ESSP, amounts deferred pursuant to the EDCP prior to its termination and not transferred to the ESSP remain subject to the terms and conditions of the EDCP and will continue to earn interest as described above.

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**REPORT OF THE HUMAN RESOURCES COMMITTEE**

To the Board of Directors of Harrah's Entertainment, Inc.:

Our role is to assist the Board of Directors in its oversight of the Company's executive compensation, including approval and evaluation of director and officer compensation plans, programs and policies and administration of the Company's bonus and other incentive compensation plans.

We have reviewed and discussed with management the Compensation Discussion and Analysis.

Based on the review and discussion referred to above, we recommend to the Board of Directors that the Compensation Discussion and Analysis referred to above be included in the Company's proxy statement on Schedule 14A.

Frank J. Biondi, Jr., Chairman  
Ralph Horn  
R. Brad Martin  
Robert G. Miller  
Boake A. Sells

*The above Report of the Human Resources Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates this Report by reference therein.*

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The Summary Compensation Table below sets forth certain compensation information concerning the Company's Chief Executive Officer, Chief Financial Officer, former Chief Financial Officer and our three additional most highly compensated executive officers during 2006.

**SUMMARY COMPENSATION TABLE**

Name and Principal Position	Year	Salary		Stock Awards (\$)(3)	Option Awards and Stock Appreciation Rights (\$)(3)	Non-Equity Incentive Plan Compensation (\$)(4)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)(5)	All Other Compensation (\$)(6)	Total (\$)
		(\$)	Bonus (\$)						
Gary W. Loveman, Chairman, President and CEO	2006	2,000,000		937,504	7,673,070	2,490,000		1,139,271	14,239,845
Jonathan S. Halkyard, Senior Vice President, Chief Financial Officer and Treasurer (1)	2006	420,740			494,175	236,772		15,832	1,167,519
Charles L. Atwood, Vice Chairman and Former Chief Financial Officer	2006	1,122,885		393,970	2,617,175	1,164,993	2,322	164,783	5,466,128
Stephen H. Brammell, Senior Vice President and General Counsel	2006	486,923		184,856	622,716	282,902		92,267	1,669,664
Virginia E. Shanks, Senior Vice President, Brand Management	2006	384,538		258,262	573,299	191,500		52,261	1,459,860
Timothy J. Wilmott, Chief Operating Officer (2)	2006	1,228,615		369,712	3,812,289	1,271,337		217,567	6,899,520

(1) Mr. Halkyard became our Chief Financial Officer on August 1, 2006.

(2) Mr. Wilmott resigned from the Company on January 5, 2007.

(3) The value of stock awards, option awards and stock appreciation rights was determined as required by Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS No. 123(R)). See Harrah's Entertainment, Inc., Annual Report on Form 10-K for the year ended December 31, 2006, Note 15 for details on assumptions used in the valuation.

(4) Non-Equity Incentive Plan Compensation amounts for 2006 were determined in February 2007 by the HRC pursuant to the Annual Management Bonus Plan (the "plan"). The plan provides the opportunity for the Company's senior executives and other participants to earn an annual bonus payment based on meeting corporate financial and non-financial goals, which are established each plan year by the HRC. For the 2006 plan year, the plan's goal consisted of a combination of earnings per share, income from operations, return on invested capital, and customer satisfaction improvement. See Compensation Discussion and Analysis Elements of Compensation Annual

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Management Bonus Plan for more details on the plan.

- (5) Includes Mr. Atwood's above market earnings on the balance he maintains in the EDCP. Mr. Atwood has attained the specified age and service requirements such that he earns the retirement rate of interest on his EDCP balance. In October 1995, the HRC approved a fixed retirement rate of 15.5% for all account balances under the EDCP as of December 31, 1995 (subject to plan minimum rates contained in the EDCP). The interest rates on post 1995 deferrals continue to be approved each year by the Committee. The retirement rate on post 1995 deferrals during 2006 was the EDCP's minimum retirement rate which was 9.06%, and the retirement rate during 2007 for post 1995 deferrals has been approved once again at the EDCP's minimum retirement rate.
- (6) All Other Compensation includes the amounts in the following table:

Name	Year	Executive Security (\$)	Allocated amount for aircraft usage (\$)	Allocated amount for company lodging and the associated taxes (\$)	Matching contributions to the ESSP II (\$)	Dividends paid on unvested stock awards (\$)
Gary W. Loveman	2006	276,720	435,786	141,665		123,958
Charles L. Atwood	2006				28,119	91,500
Stephen H. Brammell	2006					63,719
Virginia E. Shanks	2006					27,450
Timothy J. Wilmott	2006		43,279		31,812	122,000

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All other compensation is detailed in the above table only to the extent that the amount of any individual perquisite item exceeds the greater of \$25,000 or 10% of the executive's total perquisites.

Mr. Loveman is required to have executive security protection which is provided at the Company's cost; See Compensation Discussion & Analysis Personal Benefits and Perquisites for additional information.

The amount allocated to Mr. Loveman and Mr. Wilmott for personal and commuting aircraft usage is calculated based on the incremental cost to us of fuel, trip-related maintenance, crew travel expenses, on-board catering, landing fees, trip-related hangar/parking costs and other miscellaneous variable costs. Since our aircraft are used primarily for business travel, we do not include the fixed costs that do not change based on usage, such as pilots' salaries, depreciation of the purchase costs of the Company-owned aircraft, and the cost of maintenance not specifically related to trips. For security reasons, Mr. Loveman is required to use Company aircraft for personal and commuter travel.

The amount allocated to Mr. Loveman for company lodging while in Las Vegas and the associated taxes is based on his taxable earnings for such lodging.

The Company does not provide a fixed benefit pension plan for its executives but maintains a deferred compensation plan, the Executive Supplemental Savings Plan II (ESSP II), under which the executives may defer a portion of their compensation. The ESSP II is a variable investment plan that allows the executives to direct their investments by choosing among several investment alternatives.

The executives received quarterly dividends during 2006 on their unvested restricted stock awards on the same basis as all stockholders of the Company and as all other employees holding unvested restricted stock awards.

**Discussion of Summary Compensation Table**

Each of our named executive officers have entered into employment and severance agreements with the Company that relate to the benefits that the named executive officers receive upon termination. See Compensation Discussion & Analysis Elements of Post Employment Compensation and Benefits Employment Arrangements for additional information.



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The following table gives information regarding grants of stock appreciation rights ( SARs ) made during 2006 to our executive officers named in the Summary Compensation Table.

**GRANTS OF PLAN-BASED AWARDS**

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1)			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options/ SARs (#)(2)	Exercise or Base Price of Option/SARs (\$/Sh)	Closing Market Price on Grant Date (\$/Sh)(3)	Grant date fair value of stock and option/ SARs awards (\$)(4)
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)					
Gary W. Loveman	n/a 7/19/06	2,400,000	3,000,000	5,000,000					350,000	64.97	66.74	6,984,285
Jonathan S. Halkyard	n/a 7/19/06	228,213	285,267	713,166					24,606	64.97	66.74	491,015
Charles L. Atwood	n/a 7/19/06	1,122,885	1,403,606	3,509,016					173,157	64.97	66.74	3,455,365
Stephen H. Brammell	n/a 7/19/06	272,677	340,846	852,115					34,631	64.97	66.74	691,065
Virginia E. Shanks	n/a 7/19/06	184,578	230,723	576,807					27,359	64.97	66.74	545,952
Timothy J. Wilmott	n/a 7/19/06	1,225,385	1,531,731	3,829,328					184,701	64.97	66.74	3,685,727

- (1) Represents potential threshold, target and maximum incentive compensation for 2006. Amounts actually paid for 2006 are described in the Non Equity Incentive Plan Compensation column in the Summary Compensation Table.
- (2) Other than Mr. Loveman, employees vest 1/3 in the right to exercise these SARs on each June 30 for three years beginning in 2007. Mr. Loveman's SARs vest in 1/5 increments on each June 30 for 5 years beginning in 2007. SARs are subject to certain conditions, including compliance with terms and conditions of the SARs as approved by the Human Resources Committee. Generally, SARs are nontransferable except by will or the laws of descent and distribution.
- (3) Equity awards grants made under the Harrah's 2004 Equity Incentive Award Plan prescribe that the grant price be determined as the average of the high and low price of the stock on the date immediately preceding the grant date.
- (4) The value of stock awards, option awards and stock appreciation rights was determined as required by Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS No. 123(R)). See Harrah's Entertainment, Inc., Annual Report on Form 10-K for the year ended December 31, 2006, Note 15 for details on assumptions used in the valuation of the awards.

**Discussion of Grants of Plan Based Awards Table**

The Harrah's Entertainment, Inc. Amended and Restated 2004 Equity Incentive Award Plan ( 2004 EIAP ) promotes the success and enhances the value of the Company by linking the personal interests of the members of the Board, employees, and senior executives to those of Company stockholders and by providing such individuals with an incentive for outstanding performance to generate superior returns to Company stockholders.

Each executive officer is normally granted an equity award that will give such officer an estimated dollar value of stock compensation targeted to equal a percentage of salary. This percentage increases commensurate with the grade level of the officer and is determined by an assessment of competitive stock awards. The Human Resource Committee determines awards that it believes will be suitable for providing an adequate incentive for both performance and retention purposes. The

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dollar value of the award is determined by applying conventional methods for valuing equity awards. For a more detailed discussion of how equity grants are determined, see Compensation Discussion & Analysis Elements of Compensation Equity Awards.

In July 2006, equity awards in the form of stock appreciation rights were granted to the executive officers under the terms of the 2004 EIAP. The number of rights that were awarded to each executive is detailed in the above table. Stock appreciation rights allow the recipient to receive the appreciation in the fair market value of our common stock between the exercise date and the date of grant. The 2004 EIAP prescribes the formula for determining grant price for any shares awarded under the EIAP to be the average of the high and low price of the Company's stock on the date immediately preceding the grant date. For the grants made on July 19, 2006 to the named executive officers, this formula resulted in a grant price of \$64.97 per share. Other than Mr. Loveman, the stock appreciation rights awarded to the executives in July, 2006 will vest in 1/3 increments beginning June 30, 2007 and have a term of seven years. Mr. Loveman's SARs will vest in 1/5 increments beginning June 30, 2007 and have a term of seven years. Dividends are not paid on stock appreciation rights.

**Table of Contents****OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END**

Name	Options/SARs Awards					Stock Awards		Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
	Number of Securities Underlying Unexercised Options/SARs (#)	Number of Securities Underlying Unexercised Options/SARs (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options/SARs (#)	Options/SARs Exercise Price (\$)	Options/SARs Expiration Date(2)	Number of Shares or Units of Stock That Have Not Vested (#)(3)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(4)	
Gary W. Loveman	350,000			28.8125	11/15/2010			
	136,600			25.6250	1/2/2011			
	85,000			47.0250	6/19/2009			
	85,347	256,042		46.1350	9/5/2009			
	130,000			43.4950	6/18/2010			
	166,667	83,333		52.5850	6/16/2011			
	200,000	800,000		73.9500	6/17/2012			
		350,000		64.9700	7/19/2013			
						81,284	6,723,812	
Jonathan S. Halkyard	3,458			47.0250	6/19/2009			
	11,387			43.4950	6/18/2010			
	50,000			43.4350	11/11/2010			
	16,667	8,333		52.5850	6/16/2011			
	13,334	26,666		73.9500	6/17/2012			
		24,606		64.9700	7/19/2013			
Charles L. Atwood	25,000			43.4950	6/18/2010			
	41,000	41,000		52.5850	6/16/2011			
	66,667	133,333		73.9500	6/17/2012			
		173,157		64.9700	7/19/2013			
						24,000	1,985,280	
						16,000	1,323,520	
						20,000	1,654,400	
Stephen H. Brammell	36,998			28.8125	11/15/2010			
	50,000			47.0250	6/19/2009			
	28,467			43.4950	6/18/2010			
	20,000	10,000		52.5850	6/16/2011			
	16,667	33,333		73.9500	6/17/2012			
		34,631		64.9700	7/19/2013			
						40,000	3,308,800	
Virginia E. Shanks		6,333		52.5850	6/16/2011			
	13,334	26,666		73.9500	6/17/2012			
		50,000		63.9600	11/9/2012			
		27,359		64.9700	7/19/2013			
						18,000	1,488,960	
Timothy J. Wilmott	64,969			47.0250	6/19/2009			
	51,208	153,626		46.1350	9/5/2009			

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97,500		43.4950	6/18/2010
116,667	58,333	52.5850	6/16/2011
66,667	133,333	73.9500	6/17/2012
	184,701	64.9700	7/19/2013
			80,000 6,617,600

- 
- (1) Except for certain grants made to Mr. Loveman, annual option and SARs awards granted to employees vest in 1/3 increments over a two and one half to three year period. Other award grants vest as determined by the Human Resource Committee.
  - (2) The options and SARs granted to the executives after February 2002 expire seven years from the original date of grant. Options granted prior to February 2002 expire ten years from the date of grant.
  - (3) The unvested stock awards granted to the executives vested on January 1, 2007, with the exception of 54,189 awards granted to Mr. Loveman which will vest on January 1, 2008.
  - (4) The market value of the awards is \$82.72 per share, the closing price of our stock at December 29, 2006, the last day of trading of the calendar year.

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The following table gives certain information concerning stock option exercises during 2006 by our executive officers named in the Summary Compensation Table. It also gives information concerning option values.

**OPTION EXERCISES AND STOCK VESTED**

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Gary W. Loveman (1)			27,094	1,931,531
Jonathan S. Halkyard (2)	3,300	114,629		
Charles L. Atwood				
Stephen H. Brammell				
Virginia E. Shanks (3)	6,958	219,212		
	12,667	385,267		
Timothy J. Wilmott (4)	21,510	1,122,788		

- (1) Vested on January 1, 2006 at \$71.29 per share
- (2) Exercised on May 9, 2006 at \$81.76 per share
- (3) Exercised 6,958 options on January 27, 2006 at \$75.00 per share; Exercised 12,667 options on May 10, 2006 at \$83.00 per share
- (4) Exercised on May 1, 2006 at \$81.01 per share

**NONQUALIFIED DEFERRED COMPENSATION**

Name	Executive Contributions in 2006 (\$)(1)	Registrant Contributions in 2006		Aggregate Withdrawals/ Distributions (\$)	Aggregate Balance in 2006 (\$)(3)
		2006 (\$)(1)	Aggregate Earnings in 2006 (\$)(2)		
Gary W. Loveman	2,810,000	53,700	995,400		9,750,553
Jonathan S. Halkyard	68,750		41,976		346,140
Charles L. Atwood	258,263	28,119	179,926		1,759,719
Stephen H. Brammell	24,346	8,325	112,668		820,580
Virginia E. Shanks	188,908	5,463	112,604		933,343
Timothy J. Wilmott	245,723	31,812	240,747		2,357,124

- (1) Contributions for 2006 made by the executives and the Company are included in the amounts disclosed in the Summary Compensation Table.
- (2) Earnings for 2006 are excluded from the Summary Compensation Table, other than for Mr. Atwood in the amount of \$2,322 for his above market earnings in the Executive Deferred Compensation Plan. See Discussion of Nonqualified Deferred Compensation Table for additional information. All other earnings were at market rates from deferred compensation investments directed by the executives.
- (3) Contributions made by the named executive officers and the Company were disclosed in the Summary Compensation Table in current and prior years proxy statements. Earnings of the named executive officers were disclosed in the Summary Compensation Table in current and prior years proxy statements only to the extent that the earnings were derived from above market returns funded by the Company.

**Discussion of Nonqualified Deferred Compensation Table**

The Company does not provide a fixed benefit pension plan for its executives but maintains deferred compensation plans (collectively, DCP ) and an Executive Supplemental Savings Plan II ( ESSP II ). For 2006,



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certain key employees, including executive officers, could defer a portion of their salary and bonus into the ESSP II. The ESSP II is a variable investment plan that allows the executives to direct their investments by choosing among several investment alternatives. All the named executives were participants in the ESSP II during 2006. The contributions of the executives and the Company into the ESSP II during 2006 are reflected in the above table. The earnings of the executives in 2006 on current and prior year deferrals are also reflected in the above table.

The ESSP II replaced our Executive Supplemental Savings Plan ( ESSP ) for future deferrals beginning on January 1, 2005. No deferrals were allowed after December 2004 into ESSP, and the Company approved the ESSP II, which complies with the American Jobs Creation Act of 2004 and allowed deferrals starting in 2005. All the named executives maintain a balance in the ESSP and their earnings for 2006 are included in the above table.

Mr. Atwood also maintains a balance in the Executive Deferred Compensation Plan ( EDCP ). Under the EDCP, the executive earns the retirement rate under the EDCP if he attains specified age and service requirements and if his employment is terminated without cause or if we elect not to renew the agreement when it expires. The executive receives service credit under the EDCP for any salary continuation and noncompete period. Mr. Atwood has attained the specified age and service requirements under the EDCP. Further deferrals into the EDCP were terminated in 2001. The Human Resources Committee approves the ESSP rate (which cannot be lower than a specified formula rate) annually. In October 1995, the Human Resources Committee approved a fixed retirement rate of 15.5% for all account balances under the EDCP as of December 31, 1995 (subject to plan minimum rates contained in the EDCP). The interest rates on post-1995 deferrals continue to be approved each year by the Committee. The retirement rate on post-1995 deferrals during 2006 was the Plan's minimum retirement rate which was 9.06%, and the retirement rate during 2007 for post-1995 deferrals has been approved once again at the Plan's minimum retirement rate. Mr. Atwood's earnings in 2006 under the EDCP are included in the above table.

The table below shows the investment funds available under the ESSP and the ESSP II and the annual rate of return for each fund for the year ended December 31, 2006:

Name of Fund	Rate of Return	Name of Fund	Rate of Return
500 Index Trust B	15.56%	Mid Cap Stock Trust	13.66%
Lifecycle	14.83%	Mid Value Trust	20.34%
Equity	26.78%	Moderate Lifecycle	8.99%
Conservative Lifecycle	5.88%	Money Market Trust B	4.70%
Diversified Research	9.99%	Small Cap Growth Trust	13.47%
Equity-Income Trust	19.05%	Small Cap Value Trust	19.32%
Growth Lifecycle	12.16%	Turner Core Growth	8.52%
Managed Bond	4.86%		

**Potential Payments Upon Termination or Change of Control**

We have entered into employment and severance agreements with the named executive officers that require us to make payments and provide various benefits to the executives in the event of the executive's termination or a change of control in the Company. The terms of the agreements and the estimated value of the payments and benefits due to the executives pursuant to their agreements under various termination events are detailed below.

**Gary W. Loveman.** Pursuant to Mr. Loveman's employment agreement, if the Company terminates the agreement without cause, or if Mr. Loveman resigns for good reason (as defined above):

Mr. Loveman's salary and right to participate in Company benefit plans (other than bonus and long-term incentive plans) will continue for a period of two years beginning on the date of termination;

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His stock options and restricted stock will continue to vest during this two-year period (including 100% vesting upon a change in control), with any unvested options that do not vest before the expiration of the two-year period to be forfeited, except those provided pursuant to the Promotional Award;

The Promotional Award will continue to vest according to its regular vesting schedule; and

He will receive any bonus accrued for the prior year and pro-rata for the current year up to the date of termination. If the Company terminates the agreement for cause, Mr. Loveman's unvested stock options and any shares of unvested restricted stock will be cancelled and his salary will end as of the termination date.

After his employment with the Company terminates for any reason, Mr. Loveman will be entitled to participate in the Company's group health insurance plans applicable to corporate executives, including family coverage, for his lifetime. The Company will pay 80% of the premium on an after-tax basis for this coverage, and Mr. Loveman will incur imputed taxable income equal to the amount of the Company's payment. When Mr. Loveman becomes eligible for Medicare coverage, the Company's group health insurance plan will become secondary, and Mr. Loveman will be eligible for the same group health benefits as normally provided to our other retired management directors. He will incur imputed taxable income equal to the premium cost of this benefit.

Pursuant to Mr. Loveman's severance agreement, if a change in control were to occur during the term of Mr. Loveman's employment agreement, and his employment was terminated involuntarily or he resigned for good reason (as defined above) within two years after the change in control, or if his employment was involuntarily terminated within six months before the change in control under defined circumstances, Mr. Loveman would be entitled to receive the severance benefits under his severance agreement (if then in force) in lieu of the salary and rights under his employment agreement. This benefit would also apply if a change in control were to occur under certain circumstances and Mr. Loveman voluntarily terminated his employment during a 30-day period following the first anniversary of the change in control.

Mr. Loveman's severance benefits provide for the following:

Mr. Loveman will receive a compensation payment (the Compensation Payment) of three times his annual compensation (which includes salary and bonus amounts but excludes restricted stock vestings and compensation or dividends related to restricted stock, stock options or stock appreciation rights)

He will receive any bonus accrued for the prior year and a pro-rata bonus for the current year up to the date of termination.

He will receive an additional payment (the Gross-Up Payment) so that the net amount retained on the payments made under the Severance Agreement (Severance Payments) which are subject to a federal excise tax imposed on the executive (the Excise Tax) will equal the initial Severance Payments less normal taxes.

He will receive life and accident insurance benefits for twenty four months substantially similar to those which the executive was receiving immediately prior to termination.

He will receive reasonable legal fees and expenses incurred by the executive as a result of termination. Pursuant to the terms of our equity plans, if the equity awards were not assumed, all unvested restricted stock, stock options and stock appreciation rights would accelerate and become fully vested.





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In exchange for the payments and benefits provided to the executive upon termination, the executive has agreed not to compete with the Company for a period of two years after termination of his active full time employment (which for this purpose does not include the salary continuation period).

The executive has also agreed not to disclose any confidential or proprietary information relating to the Company to third parties.

Assuming Mr. Loveman's employment was terminated on December 31, 2006, and the market value of his unvested equity awards was \$82.72, which was the market price of our stock on December 29, 2006, (the last day of trading of 2006), Mr. Loveman would be eligible for the following payments and benefits:

	Voluntary Termination (\$)	Retirement (\$)	Involuntary Not for Cause Termination (\$)	For Cause Termination (\$)	Involuntary or Good Reason Termination (Change in Control) (\$)	Disability (\$)(1)	Death (\$)
<b>Gary W. Loveman</b>							
<b>Compensation:</b>							
Base Salary			4,000,000		14,876,516	4,000,000	
Short Term Incentive			2,490,000		3,000,000	2,490,000	2,490,000
Long Term Incentives:							
Unvested and Accelerated Restricted Stock			6,723,812		6,723,812	6,723,812	3,361,906
Unvested and Accelerated Stock Options and SARs			17,871,537		25,107,037	25,107,037	20,423,389
<b>Benefits and Perquisites:</b>							
Post-retirement Health Care (2)	222,266	222,266	222,266	222,266	222,266	222,266	
Life & Accident Insurance and Benefits (3)			21,992		21,992		6,000,000
Disability Insurance and Benefits (4)			114,876		114,876	30,000 per mo. & 5,000,000	
Accrued Vacation Pay							
Financial Planning			25,000		25,000		
Gross-Up Payment for Excise Taxes					7,153,441		

- (1) Base salary payments will be offset by disability payments.
- (2) Reflects the estimated present value of all future premiums under the Company's health plans.
- (3) Reflects the estimated present value of the cost of coverage for life and accident insurance policies and the estimated amount of proceeds payable to the executive's beneficiaries in the event of the executive's death.
- (4) Reflects the estimated present value of the cost of coverage for disability insurance and the amount of proceeds payable to the executive in the event of the executive's disability.

**Other NEOs.** Messrs Atwood, Brammell, Halkyard and Wilmott and Ms. Shanks all have employment agreements that state the Company can terminate the employment agreement with or without cause at any time.

If the Company terminates the agreement without cause (as defined above):

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the executive's salary and right to participate in Company benefit plans (other than bonus and long-term incentive plans) will continue for a period of eighteen months beginning on the date of termination;

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the executive's stock options and restricted stock will continue to vest during this eighteen month period (including 100% vesting upon a change in control), with any unvested options that do not vest before the expiration of the eighteen month period to be forfeited; and

the executive will receive any bonus accrued for the prior year and a pro-rata bonus for the current year up to the date of termination.

If the Company terminates the agreement for cause, the executive's unvested stock options and any shares of unvested restricted stock will be cancelled and his salary will end as of the termination date.

After his employment with the Company terminates for any reason other than by the Company for cause and if the executive has met minimum age and service requirements, the executive will be entitled to participate in the Company's group health insurance plans applicable to corporate executives, including family coverage, for his lifetime. The Company will pay 80% of the premium on an after-tax basis for this coverage, and the executive will incur imputed taxable income equal to the amount of the Company's payment. When the executive becomes eligible for Medicare coverage, the Company's group health insurance plan will become secondary and he will incur imputed taxable income equal to the premium cost of this benefit.

Pursuant to Messrs Atwood's, Brammell's, Halkyard's and Wilmott's and Ms. Shanks' severance agreement, if a change in control were to occur during the term of the executive's employment agreement, and his or her employment was terminated involuntarily or he or she resigned for good reason (as defined above) within two years after the change in control, or if his employment was involuntarily terminated within six months before the change in control under defined circumstances, the executive would be entitled to receive the severance benefits under his or her severance agreement (if then in force) in lieu of the salary and rights under his employment agreement.

The executive's severance benefits provide for the following:

a compensation payment (the Compensation Payment) of three times annual compensation (which includes salary and bonus amounts but excludes restricted stock vestings and compensation or dividends related to restricted stock, stock options or stock appreciation rights)

any bonus accrued for the prior year and pro-rata for the current year up to the date of termination.

an additional payment (the Gross-Up Payment) so that the net amount retained on the payments made under the Severance Agreement (Severance Payments) which are subject to a federal excise tax imposed on the executive (the Excise Tax) will equal the initial Severance Payments less normal taxes.

life, accident and health insurance benefits for twenty four months substantially similar to those which the executive was receiving immediately prior to termination.

reasonable legal fees and expenses incurred by the executive as a result of termination.

Pursuant to the terms of certain of our equity plans, if the equity awards were not assumed, all unvested restricted stock, stock options and stock appreciation rights would accelerate and become fully vested.

In exchange for the payments and benefits provided to the executive upon termination, the executive has agreed not to compete with the Company for a period of two years after termination of his active full time employment (which for this purpose does not include the salary continuation period).

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The executive has also agreed not to disclose any confidential or proprietary information relating to the Company to third parties.

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Assuming the employment of Messrs. Atwood, Brammell, Halkyard and Wilmott and Ms. Shanks was terminated on December 31, 2006, and the market value of the executive's unvested equity awards was \$82.72, which was the market price of our stock on December 29, 2006, (the last day of trading of 2006), the executive would be eligible for the following payments and benefits:

	Voluntary Termination (\$)	Retirement (\$)	Involuntary Not for Cause Termination (\$)	For Cause Termination (\$)	Involuntary or Good Reason Termination (Change in Control) (\$)	Disability (\$)(1)	Death (\$)
<b>Jonathan S. Halkyard</b>							
<b>Compensation:</b>							
Base Salary			787,500		2,079,911	787,500	
Short Term Incentive			236,772		285,267	236,772	236,772
Long Term Incentives:							
Unvested and Accelerated Restricted Stock							
Unvested and Accelerated Stock Options and SARs			776,146		921,732	848,939	460,866
<b>Benefits and Perquisites:</b>							
Post-retirement Health Care (2)					17,548	162,180	
Life & Accident Insurance and Benefits (3)					3,918		1,103,000
Disability Insurance and Benefits (4)					5,517	22,500 per mo.	
Accrued Vacation Pay	10,514	10,514	10,514	10,514	10,514	10,514	10,514
Financial Planning			7,500		7,500		
Gross-Up Payment for Excise Taxes					944,779		

- (1) Base salary payments will be offset by disability payments.
- (2) Reflects the estimated present value of all future premiums under the Company's health plans.
- (3) Reflects the estimated present value of the cost of coverage for life and accident insurance policies and the estimated amount of proceeds payable to the executive's beneficiaries in the event of the executive's death.
- (4) Reflects the estimated present value of the cost of coverage for disability insurance and the amount of proceeds payable to the executive in the event of the executive's disability.

	Voluntary Termination (\$)	Retirement (\$)	Involuntary Not for Cause Termination (\$)	For Cause Termination (\$)	Involuntary or Good Reason Termination (Change in Control) (\$)	Disability (\$)(1)	Death (\$)
<b>Charles L. Atwood</b>							
<b>Compensation:</b>							
Base Salary			1,950,000		7,239,292	1,950,000	
Short Term Incentive			1,164,993		1,403,606	1,164,993	1,164,993
Long Term Incentives:							
Unvested and Accelerated Restricted Stock							
Unvested and Accelerated Stock Options and SARs			4,453,889		5,478,402	4,966,146	2,739,201
<b>Benefits and Perquisites:</b>							
Post-retirement Health Care (2)	164,548	164,548	164,548		164,548	164,548	
Life & Accident Insurance and Benefits (3)					11,189		3,150,000
Disability Insurance and Benefits (4)					8,362	30,000 per mo.	
Accrued Vacation Pay	48,128	48,128	48,128	48,128	48,128	48,128	48,128
Financial Planning			15,000		15,000		

Gross-Up Payment  
for Excise Taxes

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- (1) Base salary payments will be offset by disability payments.
- (2) Reflects the estimated present value of all future premiums under the Company's health plans.
- (3) Reflects the estimated present value of the cost of coverage for life and accident insurance policies and the estimated amount of proceeds payable to the executive's beneficiaries in the event of the executive's death.
- (4) Reflects the estimated present value of the cost of coverage for disability insurance and the amount of proceeds payable to the executive in the event of the executive's disability.

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	Voluntary Termination (\$)	Retirement (\$)	Involuntary Not for Cause Termination (\$)	For Cause Termination (\$)	Involuntary or Good Reason Termination (Change in Control) (\$)	Disability (\$)(1)	Death (\$)
<b>Stephen H. Brammell</b>							
<b>Compensation:</b>							
Base Salary			750,000		2,550,964	750,000	
Short Term Incentive			282,902		340,846	282,902	282,902
Long Term Incentives:							
Unvested and Accelerated Restricted Stock			5,790,400		5,790,400	5,790,400	4,136,000
Unvested and Accelerated Stock Options and SARs			1,003,475		1,208,381	1,105,928	604,191
<b>Benefits and Perquisites:</b>							
Post-retirement Health Care (2)					17,761	219,825	
Life & Accident Insurance and Benefits (3)					5,328		1,500,000
Disability Insurance and Benefits (4)					7,313	28,750 per mo.	
Accrued Vacation Pay	44,602	44,602	44,602	44,602	44,602	44,602	44,602
Financial Planning			7,500		7,500		
Gross-Up Payment for Excise Taxes							

- (1) Base salary payments will be offset by disability payments.
- (2) Reflects the estimated present value of all future premiums under the Company's health plans.
- (3) Reflects the estimated present value of the cost of coverage for life and accident insurance policies and the estimated amount of proceeds payable to the executive's beneficiaries in the event of the executive's death.
- (4) Reflects the estimated present value of the cost of coverage for disability insurance and the amount of proceeds payable to the executive in the event of the executive's disability.

	Voluntary Termination (\$)	Retirement (\$)	Involuntary Not for Cause Termination (\$)	For Cause Termination (\$)	Involuntary or Good Reason Termination (Change in Control) (\$)	Disability (\$)(1)	Death (\$)
<b>Virginia E. Shanks</b>							
<b>Compensation:</b>							
Base Salary			592,500		1,779,514	592,500	
Short Term Incentive			191,500		230,723	191,500	191,500
Long Term Incentives:							
Unvested and Accelerated Restricted Stock			1,488,960		1,488,960	1,488,960	744,480
Unvested and Accelerated Stock Options and SARs			982,948		1,848,328	1,415,638	924,164
<b>Benefits and Perquisites:</b>							
Post-retirement Health Care (2)					9,698	213,271	
Life & Accident Insurance and Benefits (3)					4,209		1,185,000
					6,255	23,750 per mo.	



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Disability Insurance and  
Benefits (4)

Accrued Vacation Pay	37,128	37,128	37,128	37,128	37,128	37,128	37,128
Financial Planning			7,500		7,500		
Gross-Up Payment for Excise Taxes					827,422		

- (1) Base salary payments will be offset by disability payments.
- (2) Reflects the estimated present value of all future premiums under the Company's health plans.
- (3) Reflects the estimated present value of the cost of coverage for life and accident insurance policies and the estimated amount of proceeds payable to the executive's beneficiaries in the event of the executive's death.
- (4) Reflects the estimated present value of the cost of coverage for disability insurance and the amount of proceeds payable to the executive in the event of the executive's disability.

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Timothy J. Wilmott(1)	Voluntary Termination (\$)	Retirement (\$)	Involuntary Not for Cause Termination (\$)	For Cause Termination (\$)	Involuntary or Good Reason Termination (Change in Control) (\$)	Disability (\$)	Death (\$)
<b>Compensation:</b>							
Base Salary			1,890,000		7,752,933	1,890,000	
Short Term Incentive			1,271,337		1,531,731	1,271,337	1,271,337
Long Term Incentives:							
Unvested and Accelerated Restricted Stock			6,617,600		6,617,600	6,617,600	3,308,800
Unvested and Accelerated Stock Options and SARs			10,733,231		11,826,045	11,279,638	5,913,023
<b>Benefits and Perquisites:</b>							
Post-retirement Health Care (3)					14,141	238,323	238,323
Life & Accident Insurance and Benefits (4)					12,787		3,600,000
Disability Insurance and Benefits (5)					7,024	30,000 per mo.	
Accrued Vacation Pay	98,833	98,833	98,833	98,833	98,833	98,833	98,833
Financial Planning			15,000		15,000		
Gross-Up Payment for Excise Taxes							

(1) Mr. Wilmott's severance agreement terminated on January 5, 2007, the date he resigned from the Company.

(2) Base salary payments will be offset by disability payments.

(3) Reflects the estimated present value of all future premiums under the Company's health plans.

(4) Reflects the estimated present value of the cost of coverage for life and accident insurance policies and the estimated amount of proceeds payable to the executive's beneficiaries in the event of the executive's death.

(5) Reflects the estimated present value of the cost of coverage for disability insurance and the amount of proceeds payable to the executive in the event of the executive's disability.

**Equity Compensation Plan Information**

The table below sets forth information regarding our equity compensation plans as of the record date, February 28, 2007.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights(1)	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by stockholders (2)	12,990,814	\$ 58.16	8,598,903
Equity compensation plans not approved by stockholders (3)	57,421	57.16	8,784
Total	13,048,235	58.16	8,607,687

(1) The weighted average remaining contract life for the options, warrants and rights set forth in this column is 4.7 years.

(2) Includes the Company's Amended and Restated 2004 Equity Incentive Award Plan, 2001 Executive Stock Incentive Plan, 1996 Non-Management Directors Stock Incentive Plan, 1990 Restricted Stock Plan, 1990 Stock Option Plan, Park Place Entertainment Corporation 1998 Stock Incentive Plan, and the Caesars Entertainment, Inc. 2004 Long-Term Incentive Plan.

(3) Includes the Harrah's Entertainment, Inc. 2001 Broad-Based Stock Incentive Plan. The 2001 Broad-Based Stock Incentive Plan was not required to be approved by stockholders pursuant to rules of the New York Stock Exchange in

existence at that time.

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**TRANSACTIONS WITH RELATED PERSONS, PROMOTERS AND CERTAIN CONTROL PERSONS**

Mr. Bollenbach is Co-Chairman and Chief Executive Officer of Hilton Hotels Corporation. We own a 50% interest in Windsor Casino Limited, which operates Casino Windsor in Ontario, Canada. A subsidiary of Hilton Hotels owns the other 50% of Windsor Casino Limited. In addition, we paid Hilton Hotels approximately \$435,000 during 2006 related to the use of the Hilton name at the Reno Hilton property before the sale of that property in May 2006.

Other than as noted above, there were no reportable relationships or transactions for 2006.

Our board of directors has approved related party transaction policy and procedures which gives our Audit Committee the power to approve or disapprove potential related party transactions of our directors and executive officers, their immediate family members and entities where they hold a 5% or greater beneficial ownership interest. The Audit Committee is charged with reviewing all relevant facts and circumstances of a related party transaction, including if the transaction is on terms comparable to those that could be obtained in arm's length dealings with an unrelated third party and the extent of the person's interest in the transaction.

The policy has pre-approved the following related party transactions:

Compensation to an executive officer or director that is reported in the company's public filings and has been approved by the Human Resources Committee or our board of directors;

Transactions where the interest arises only from (a) the person's position as a director on the related party's board; (b) direct or indirect ownership of less than 5% of the related party or (c) the person's position as a partner with the related party with less than 5% interest and not the general partner of the partnership; and

Transactions involving services as a bank depository of funds, transfer agent, registrar, trustee under a trust indenture or similar services.

The Chair of our Audit Committee has been delegated authority to approve or ratify any related party transaction in which the aggregate amount involved is less than \$50,000.

**HUMAN RESOURCES COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

During 2006, the members of the Human Resources Committee were Messrs. Biondi, Horn, Miller and Sells. W. Barron Hilton was also a member of the Human Resources Committee until his retirement from the Board of Directors on April 25, 2006. None of these individuals are current or former officers or employees of the Company or any of our subsidiaries. During 2006, none of our executive officers served as a director or member of a compensation committee (or other committee serving an equivalent function) of any other entity whose executive officers served as a director or member of our Human Resources Committee.

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Exchange Act requires our directors and officers to file with the SEC initial reports of ownership and reports of changes in ownership of our common stock and to furnish us with copies of all forms filed. To our knowledge, based solely on review of the copies of such reports furnished to us and written representations that no other reports were required, during the past fiscal year all Section 16(a) filing requirements applicable to our officers and directors were met.

**Table of Contents****OTHER INFORMATION****Certain Stockholders**

The table below sets forth, to the best of our knowledge, information regarding the beneficial owners of more than 5% of the Company's common stock as of December 31, 2006. The sources of this information are Schedules 13G/A filed by the listed beneficial owners with the Securities and Exchange Commission.

Name and Address of Beneficial Owner	Number of Shares	
	Beneficially Owned	Percent of Class
Janus Capital Management, LLC 151 Detroit Street Denver, Colorado 80206	14,118,583(a)	7.6%
Private Capital Management, L.P. 8889 Pelican Bay Naples, FL 34108	10,861,486(b)	5.8%
Capital Research and Management Company 333 South Hope Street Los Angeles, CA 90071	9,358,440(c)	5.0%

- (a) Janus Capital Management, LLC has reported sole voting and dispositive power as to 13,863,853 shares and shared voting and dispositive power as to 254,730 shares. The source of this information is a Schedule 13G/A filed by Janus Capital Management, LLC with the Securities and Exchange Commission dated February 14, 2007.
- (b) Private Capital Management, L.P., a subsidiary of Legg Mason, Inc., has reported shared voting and dispositive power as to 10,623,094 shares and sole voting and dispositive power as to 238,392 shares. The source of this information is a Schedule 13G/A filed by Private Capital Management with the Securities and Exchange Commission dated February 14, 2007.
- (c) Capital Research and Management Company has reported sole voting power as to 3,824,700 shares and sole dispositive power as to 9,358,440 shares. The Growth Fund of America, Inc., an investment company advised by Capital Research and Management Company, has reported sole voting power of 4,697,036 shares. The source of this information is a Schedule 13G/A filed by Capital Research and Management Company with the Securities and Exchange Commission dated February 7, 2007.

**Cost of Solicitation**

The expense of soliciting proxies and the cost of preparing, assembling and mailing material in connection with the solicitation of proxies will be paid by the Company. In addition to the use of mails, some of our directors, officers or employees, who receive no compensation for their services other than their regular salaries, may solicit and tabulate proxies. We have retained D.F. King & Co. to assist in the solicitation of proxies with respect to our common stock held of record by brokers, nominees and institutions. The estimated cost of the services of D.F. King & Co. is \$9,000, plus expenses.

**Stockholder Proposals for 2008 Annual Meeting**

For any proposal to be considered for inclusion in our proxy statement and form of proxy for submission to the stockholders at our 2008 Annual Meeting, it must comply with the requirements of Rule 14a-8 under the Securities Exchange Act of 1934, must be submitted in writing by notice delivered or mailed by first-class United States mail, postage prepaid, to the Corporate Secretary, Harrah's Entertainment, Inc., One Harrah's Court, Las Vegas, Nevada 89119, and must be received no later than November 22, 2007. In addition, our bylaws provide for notice procedures to recommend a person for nomination as a director and to propose business to be considered by stockholders at a meeting. Pursuant to our bylaws (but not as required by SEC Rule 14a-8 for



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inclusion in our proxy materials), in order for business to be properly brought before an annual meeting by a stockholder, including the nomination of a director, the stockholder's written notice of the matter must be received by the Corporate Secretary not less than 90 days nor more than 120 days prior to the first anniversary of the preceding year's annual meeting. If the date of our 2008 Annual Meeting is more than 30 before or more than 70 days after the anniversary date, the stockholder's notice must be received by the close of business on a date that is not earlier than 120 days prior to such annual meeting and not later than the close of business on the later of the 90<sup>th</sup> day prior to such annual meeting or the 10<sup>th</sup> day following the date on which the public announcement of the date of such meeting is first made by the Company. For our 2008 Annual Meeting, the date of which has not been definitively set, such notice must be received not earlier than December 28, 2007, and not later than January 28, 2008. To be in proper form, a stockholder's notice must include the specified information concerning the proposal or nominee as required by our bylaws and must otherwise comply with all applicable law. A copy of our bylaws is available to a stockholder by sending a written request to our Corporate Secretary. A proposal that meets all the requirements of our bylaws and applicable law but not the requirements of SEC Rule 14a-8 may be presented at the meeting but will not be included in the proxy statement for the 2008 Annual Meeting. Any matter that does not meet the requirements for submitting a proposal or nominee will not be eligible for presentation at the meeting and the chairman may refuse to acknowledge the introduction of any such proposal or nominee. The Company will have discretionary authority to vote shares under proxies we solicit concerning matters which we did not have notice by a certain date, and, to the extent permitted by law, on any other business that may properly come before the 2008 Annual Meeting and any adjournments.

Due to the pending acquisition of the Company by affiliates of Texas Pacific Group and Apollo Management, it is not currently anticipated that the Company will hold a 2008 Annual Meeting.

By Direction of the Board of Directors

Michael D. Cohen  
*Corporate Secretary*

Las Vegas, Nevada  
March 13, 2007

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ANNEX A

**HARRAH S ENTERTAINMENT, INC.**

**BOARD OF DIRECTORS**

**CATEGORICAL STANDARDS FOR INDEPENDENCE**

The following categorical standards are used in determining whether a relationship is material and, thus, would disqualify a director from being independent:

In any of the past three fiscal years, the director was an employee of the Company or any of its subsidiaries, or an immediate family member of the director was an executive officer of the Company or any of its subsidiaries;

In any of the past three fiscal years, the director (or an immediate family member of the director) received more than \$100,000 in a single year in direct compensation from the Company or any of its subsidiaries, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service);

In any of the past three fiscal years, the director was affiliated with or employed by a present or former internal or external auditor of the Company or an immediate family member of the director was affiliated with or employed in a professional capacity by a present or former internal or external auditor of the Company;

In any of the past three fiscal years, the director (or an immediate family member of the director) was employed as an executive officer of another company where any of the Company's executives served on that company's compensation committee;

The director (or an immediate family member) was an executive officer or employee of another company that made payments to, or received payments from, the Company or any of its subsidiaries for property or services in an amount which in any of the past three fiscal years exceeded the greater of \$1 million or two percent (2%) of such other company's consolidated gross revenues, or in the past or current fiscal year exceeded two percent (2%) of the Company's consolidated gross revenues for such fiscal year;

The director (or an immediate family member of the director) was an affiliate of a company that made payments to, or received payments from, the Company or any of its subsidiaries for property or services in an amount in the past or current fiscal year that exceeded two percent (2%) of either the Company's or such other company's consolidated gross revenues for its last full fiscal year;

The director (or an immediate family member of the director) is an affiliate or executive officer of another company to which the Company was indebted during the past or current fiscal year (other than as a non-agent participant of a syndicate of commercial lending institutions) and the total amount of indebtedness exceeds two percent (2%) of the total consolidated assets of the Company at the end of such fiscal year;

The director (or an immediate family member of the director) is an officer, director or trustee of a charitable organization where the Company's (or an affiliated charitable foundation's) annual discretionary charitable contributions to the charitable organization, in the last or current fiscal year exceeds the greater of \$1 million or two percent (2%) of that organization's consolidated gross revenues;

The director (or an immediate family member of the director) is a member of, or of counsel to, a law firm that provides legal services to the Company on a regular basis; or

The director is in a position of any substantially similar relationship to those listed above of which the Board is aware.

For purposes of the foregoing, "affiliate" includes any person beneficially owning directly or indirectly in excess of 10% of the voting power of, or who is a general partner or a managing member of, such entity.





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Harrah's Entertainment, Inc.  
Annual Meeting of Stockholders  
April 26, 2007 at 11:00 a.m.  
Tiberius Ballroom  
Caesars Palace  
3570 Las Vegas Boulevard South  
Las Vegas, Nevada

A limited number of rooms have been reserved at Caesars Palace  
for our stockholders attending the 2007 Annual Meeting.

These rooms may be reserved through  
April 11, subject to availability.

For reservations call (702) 731-7152 and refer to Group Code ACSTCK7.

If you have chosen to view our proxy statements and annual reports  
over the Internet instead of receiving paper copies in the mail, you  
can access our proxy statement for the 2007 Annual Meeting and  
2006 Annual Report on Form 10-K electronically at our web site,  
<http://investor.harrah.com>

**HARRAH'S ENTERTAINMENT, INC.  
PROXY SOLICITED BY THE BOARD OF DIRECTORS FOR ANNUAL MEETING  
OF STOCKHOLDERS TO BE HELD APRIL 26, 2007**

The undersigned hereby appoints Gary W. Loveman and Michael D. Cohen, and each of them, and his or her attorneys and agents, with full power of substitution, to vote as proxy for the undersigned at the Annual Meeting of Stockholders of Harrah's Entertainment, Inc. (the Company) to be held on April 26, 2007 at 11:00 a.m. in the Tiberius Ballroom, Caesars Palace, 3570 Las Vegas Boulevard South, Las Vegas, Nevada, and at any adjournment or postponement thereof, according to the number of votes the undersigned would be entitled to vote if personally present on the proposals set forth on the reverse side of this card (and as more particularly set forth in the Notice of Meeting enclosed herewith) and in accordance with their discretion on any other matters that may properly come before the meeting or any adjournment or postponement thereof. This proxy also constitutes confidential voting instructions for the use of participants in the Company's Stock Fund of the Company's Savings and Retirement Plan.

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All shares of the Company's Common Stock that are represented at the Annual Meeting by properly executed proxies received prior to or at the Annual Meeting and not revoked will be voted at the Annual Meeting in accordance with the instructions indicated on the reverse side of this card. If no instructions for a proposal are indicated on an executed Proxy Card, such proxies will be voted in accordance with the recommendation of the Board of Directors as set forth herein with respect to such proposal.

To ensure timely receipt of your vote and to help the Company reduce costs, you are encouraged to submit your voting instruction over the Internet or by telephone simply follow the instruction on the reverse side of this card. If you choose to submit your voting instruction by mail, just mark, sign and date this proxy card on the reverse side and return it in the envelope provided.

**IF YOU PLAN TO ATTEND THE ANNUAL MEETING OF STOCKHOLDERS, PLEASE MARK THE FOLLOWING BOX AND PROMPTLY RETURN THIS PROXY CARD.**

HARRAH'S ENTERTAINMENT, INC.

P.O. BOX 11025

NEW YORK, N.Y. 10203-0025

**IF YOU REQUEST TO ACCESS FUTURE PROXY STATEMENTS AND ANNUAL REPORTS ELECTRONICALLY, AND AGREE TO DO SO, PLEASE MARK THIS BOX.**

**PLEASE SIGN AND DATE ON REVERSE SIDE**

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**HARRAH S  
ENTERTAINMENT  
INC.**

**3 EASY WAYS TO VOTE YOUR PROXY**

**INTERNET**

**<https://www.proxypush.com/heta>**  
Go to the website address listed  
above.  
**Have your proxy card ready.**  
Follow the simple instructions that  
appear on your computer screen.

**OR**

**TELEPHONE**

**1-866-307-0768**  
Use any touch-tone telephone.  
**Have your proxy card ready.**  
Follow the simple recorded  
instructions.

**OR**

**MAIL**

Mark, sign and date your proxy  
card.  
Detach your proxy card.  
Return your proxy card in the  
postage-paid envelope provided.

NOTE: IF YOU VOTE BY INTERNET OR TELEPHONE, YOU DO NOT NEED TO MAIL IN YOUR PROXY CARD.

INTERNET AND TELEPHONE VOTING ARE AVAILABLE 24 HOURS A DAY, 7 DAYS A WEEK.

**1-866-307-0768**

**CALL TOLL-FREE TO VOTE**

..

Ú DETACH PROXY CARD HERE IF YOU ARE NOT VOTING BY TELEPHONE OR INTERNET Ú

**PLEASE SIGN, DATE AND**

**MAIL THIS PROXY CARD**

**X**

**PROMPTLY USING THE**

**Votes must be indicated**

**ENCLOSED ENVELOPE.**

**(x) in Black or Blue ink.**

**THE BOARD OF DIRECTORS UNANIMOUSLY  
RECOMMENDS THAT STOCKHOLDERS  
VOTE  
FOR:**

**FOR AGAINST ABSTAIN**

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- 1. Election of Class II directors for three-year terms expiring at the 2010 Annual Meeting.
- 2. Ratification of the appointment of Deloitte & Touche LLP as the independent registered public accounting firm for the Company for 2007 calendar year.

FOR WITHHOLD EXCEPTIONS

ALL FOR ALL

Nominees: 01 - Stephen F. Bollenbach, 02 - Ralph Horn,

03 - Gary W. Loveman, and 04 - Boake A. Sells

**(INSTRUCTIONS: To withhold authority to vote for any individual nominee, mark the Exceptions box and write that nominee's name in the space provided below. If authority to vote for any nominee is not withheld, this signed proxy will be deemed to grant authority to vote for the nominee.)**

\* Exceptions \_\_\_\_\_

To change your address, please mark this box.

SCAN LINE

Signatures of stockholders should correspond exactly with the names shown on the Proxy Card. Attorneys, trustees, executors, administrators, guardians and others signing in a representative capacity should designate their full titles. If a corporation, please sign in full corporate name by President or other authorized officer. If a partnership, please sign in partnership name by authorized person. Joint owners should both sign.

Date      Share Owner sign here      Co-Owner sign here