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11 *Derivatively on behalf of Sonoma Valley Bancorp*

12 **SUPERIOR COURT OF THE STATE OF CALIFORNIA**
13 **IN AND FOR THE COUNTY OF SONOMA**

14 NEWTON DAL POGGETTO, an individual;
DOUGLAS R. GHISELIN, as Trustee of the Douglas
15 R. Ghiselin and Patricia A. Ghiselin Revocable Trust
dated May 30, 1996 and restated July 19, 2011; and,
16 PATRICIA A. GHISELIN, as Trustee of the Douglas
R. Ghiselin and Patricia A. Ghiselin Revocable Trust
dated May 30, 1996 and restated July 19, 2011, all
17 derivatively on behalf of Sonoma Valley Bancorp;

18 Plaintiffs,

19 v.

20 MEL SWITZER, an individual; SEAN CUTTING, an
individual; ROBERT J. NICHOLAS, an individual;
21 SUZANNE BRANGHAM, an individual; DALE T.
DOWNING, an individual; ROBERT B.
22 HITCHCOCK, an individual; VALERIE PISTOLE, an
individual; MARY DIETER SMITH, an individual;
23 and DOE DEFENDANTS 1 through 100,

24 Defendants.

25 and

26 SONOMA VALLEY BANCORP,
Nominal Defendant.
27

**ENDORSED
FILED**

AUG 26 2011

**SUPERIOR COURT OF CALIFORNIA
COUNTY OF SONOMA**

Case No. SCV-249917

**FIRST AMENDED COMPLAINT
FOR:**

1. **BREACH OF FIDUCIARY
DUTY**
2. **ABUSE OF CONTROL**

BY FAX

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1 Plaintiffs, as and for their derivative complaint, allege as follows upon information and
2 belief, *inter alia*, based upon an investigation by and through their attorneys, except as to
3 paragraph 15 and 16, which are based upon personal knowledge:

4 **I. INTRODUCTION**

5 1. This is a derivative action brought on behalf of Sonoma Valley Bancorp against
6 certain of its present and former officers and/or directors who engaged in a wrongful course of
7 conduct that included violations of their fiduciary duty to Sonoma Valley Bancorp and its
8 shareholders, making false and misleading statements about the condition of Sonoma Valley
9 Bancorp's business, and violations of lending standards of practice as well as legal lending limits.

10 2. Sonoma Valley Bank ("the Bank") began business in June 1988 as a subsidiary of
11 Napa Valley Bancorp. From the beginning, the Bank was established to be a community bank,
12 operated and run to support local merchants and residents of Sonoma Valley. Many of the
13 Bank's customers were also shareholders. Since its inception in 1988, the Bank encouraged
14 depositors to take an ownership stake in the bank. As a result, the Bank had more than 1,000
15 shareholders -- many of whom were local Sonoma residents.

16 3. In 1993, Napa Valley Bancorp merged into WestAmerica Bancorp, at which time
17 the Bank became independent.

18 4. In or about October 2000, the Bank formed Sonoma Valley Bancorp ("Bancorp")
19 for the purpose of establishing a single-bank holding company structure pursuant to a plan of
20 reorganization. Thereafter, Bancorp's common stock was quoted on the OTC Bulletin Board
21 (Ticker: SBNK), and it filed periodic reports with the Securities and Exchange Commission (the
22 "SEC").

23 5. At all relevant times following the reorganization described above, the principal
24 asset of Bancorp was the Bank. Moreover, until August 20, 2010, when regulatory authorities
25 closed the Bank, Bancorp was the sole shareholder of the Bank.

26 6. As of August 20, 2010, Sonoma Valley Bancorp had approximately 2.3 million
27 shares outstanding, and approximately 1,000 shareholders, including Plaintiffs. During the
28 period 2001 to late 2009, the shares of Bancorp traded at prices as high as \$30.95 per share. By

1 late 2010, after its principal asset, the Bank, was closed, the shares of Bancorp lost virtually all of
2 their trading value. Today, the shares trade for approximately \$0.003 per share.

3 7. The collapse of the Bank and the resulting destruction of the Bancorp share price
4 are attributable, in substantial part, to a series of large loans made by the Bank to a small group
5 of Northbay developers even though these developers were defaulting on multi-million dollar
6 loans from other banks and were not paying construction contractors. Furthermore, Defendants
7 knew, or should have known, that lending limits were being circumvented by many of these same
8 borrowers through the use of straw borrowers and LLCs.

9 8. Despite the precarious finances of the Bank, Defendants continued to assure
10 Bancorp's shareholders, including Plaintiffs, that the Bank was doing well.

11 9. As discussed below, Defendants made a myriad of statements to the public about
12 various ventures into which the Bank was entering and the positive impact those ventures would
13 have on the company. Defendants also touted the Bank's strong financial numbers, knowing that
14 such numbers were artificially inflated.

15 10. Finally, in February 2010, Defendants were forced to reveal the truth and
16 acknowledge the necessity of restating the company's reported revenues, i.e., admitting that the
17 financial statements were materially misstated. After this announcement, Bancorp's stock
18 dropped to \$4.80, an all-time low.

19 11. The false statements made by Defendants to the public and the SEC were in direct
20 contravention of Defendants' duty to disseminate truthful and accurate information about
21 Bancorp's financial projections and forecasts, operations, and performance.

22 12. Defendants' wrongdoing has caused substantial losses to Bancorp and its
23 shareholders. Bancorp's stock price is virtually worthless.

24 **II. JURISDICTION AND VENUE**

25 13. The amount in controversy exceeds the jurisdictional minimum of this Court.

26 14. Bancorp conducts business in Sonoma County. In addition, certain Defendants
27 reside in Sonoma County, California, and Defendants committed the wrongful acts described
28 herein while in Sonoma County.

1 **III. PARTIES**

2 **A. PLAINTIFFS**

3 **1. Newton Dal Poggetto**

4 15. Plaintiff Newton Dal Poggetto ("Poggetto") is a resident of this County. At all
5 times relevant herein, Poggetto has owned shares in Sonoma Valley Bancorp. Poggetto brings
6 this action derivatively on behalf of nominal defendant Sonoma Valley Bancorp.

7 **2. Douglas R. Ghiselin and Patricia A. Ghiselin**

8 16. Plaintiffs Douglas R. Ghiselin and Patricia A. Ghiselin (the "Ghiselins") are
9 Trustees of the Douglas R. Ghiselin and Patricia A. Ghiselin Revocable Trust dated May 30,
10 1996 and restated July 19, 2011. Plaintiffs are residents of this County. At all times relevant
11 herein, the Douglas R. Ghiselin and Patricia A. Ghiselin Revocable Trust dated May 30, 1996
12 and restated July 19, 2011 (the "Trust") has owned shares in Bancorp. The Ghiselins bring this
13 action derivatively on behalf of nominal defendant Bancorp.

14 **B. NOMINAL DEFENDANT**

15 17. Nominal defendant Bancorp is organized as a corporation under the laws of the
16 State of California, and has its principal executive offices at 202 West Napa Street, Sonoma,
17 California. As of August 15, 2011, Bancorp is listed as Active with the California Secretary of
18 State. Bancorp's primary asset was the Bank. Moreover, until August 20, 2010, when regulatory
19 authorities closed the Bank, Bancorp was the sole shareholder of the Bank. Bancorp is listed on
20 OTC under the ticker symbol SBNK. Bancorp is named as a nominal defendant herein solely in
21 its derivative capacity. This action is brought on its behalf and no claims are asserted against
22 Bancorp.

23 **C. OFFICER AND DIRECTOR DEFENDANTS**

24 **1. Mel Switzer, Jr.**

25 18. Defendant MEL SWITZER, JR. ("Switzer") was a director and the Vice Chairman
26 of the Board of Bancorp from June 2006 until at least August 20, 2010. Mr. Switzer was also
27 President and Chief Executive Officer of the Bank from 1990 until 2009 and Chairman of the
28 Board of the Bank from 2008 until it was closed. Mr. Switzer has extensive knowledge and

1 experience in the banking industry, including previously serving as the CEO of County Bank and
2 Trust Company in Santa Cruz, California.

3 **2. Sean Cutting**

4 19. Defendant SEAN CUTTING ("Cutting") was the Chief Executive Officer of
5 Bancorp until at least August 20, 2010. Mr. Cutting was also Chief Executive Officer of the
6 Bank from February 2009 until it was closed. Mr. Cutting joined the lending group of the Bank
7 as Vice President in 2002, and in 2006 was named Executive Vice President and Chief Lending
8 Officer, overseeing the lending group and all lending operations for the Bank. In 2008, Mr.
9 Cutting was also the Chief Administrative Officer of the Bank. Mr. Cutting had worked as a
10 Corporate Banking Officer and an Investment Consultant for other banks and investment firms
11 prior to his joining Bancorp and the Bank.

12 **3. Robert J. Nicholas**

13 20. Defendant ROBERT J. NICHOLAS ("Nicholas") was a director and the Chairman
14 of the Board of Bancorp from its formation in November 2000 until at least August 20, 2010.
15 Nicholas was also a Director of the Bank from its formation in 1988 until it was closed in August
16 2010. Mr. Nicholas was also the Chairman of the Board of Directors for Nicholas Turkey Farms
17 from 1982 until his retirement in 1992.

18 **4. Suzanne Brangham**

19 21. Defendant SUZANNE BRANGHAM ("Brangham") was Secretary since 2001 and
20 a director of Bancorp from its formation in November 2000 until at least August 20, 2010.
21 Brangham was also a Director of the Bank from March 1995 until it was closed. Ms. Brangham
22 is a developer, restaurateur, and hotelier, including the luxury hotel and spa, MacArthur Place,
23 located in Sonoma.

24 **5. Dale T. Downing**

25 22. Defendant DALE T. DOWNING ("Downing") was a Director of Bancorp from its
26 formation in November 2000 until at least August 20, 2010. Mr. Downing was also a Director of
27 the Bank from its formation in 1988 until it was closed. Mr. Downing, along with a relative,
28 established the Shone's County Store in Glen Ellen. Downing also established Downing Markets

1 in El Verano, and, is part owner of Sonoma Market in Sonoma.

2 **6. Robert B. Hitchcock**

3 23. Defendant ROBERT B. HITCHCOCK ("Hitchcock") was a Director of Bancorp
4 from its formation in November 2000 until at least August 20, 2010. Mr. Hitchcock was also a
5 Director of the Bank from its formation in 1988 until it was closed. Mr. Hitcock also served as
6 President of Nicholas Turkey Breeding Farms from 1982 until his retirement in 1992.

7 **7. Valerie Pistole**

8 24. Defendant VALERIE PISTOLE ("Pistole") was a Director of Bancorp from
9 August 2007 until at least August 20, 2010. Pistole was also a Director of the Bank from
10 October 2006 until it was closed. Ms. Pistole is a local attorney practicing in the areas of
11 Business and Estate Planning for both individuals and business at her law firm, Walter and
12 Pistole, in Sonoma.

13 **8. Mary Dieter**

14 25. Defendant MARY DIETER a/k/a Mary Smith, a/k/a Mary Dieter Smith, a/k/a
15 Mary Quay Dieter, a/k/a Mary Quay Smith ("Dieter") was the Executive Vice President, Chief
16 Financial Officer and Assistant Corporate Secretary of Bancorp from its formation in November
17 2000 until at least August 20, 2010. Ms. Dieter was Vice President, Chief Financial Officer and
18 Assistant Corporate Secretary of the Bank from June 1988 to January 1993, and thereafter was its
19 Executive Vice President, Chief Financial Officer, and Assistant Corporate Secretary.

20 **D. DOE DEFENDANTS**

21 26. DOES 1 through 100, who are persons or entities whose true names and identities
22 are presently unknown to Plaintiffs and who, therefore, sues such persons or entities by such
23 fictitious names. Plaintiffs allege that each of the fictitiously-named defendants perpetrated some
24 or all of the wrongful acts alleged herein, is responsible in some manner for the matters alleged
25 herein, and is jointly and severally liable for the acts complained of herein. Plaintiffs will seek
26 leave of court to amend this complaint to state the true names and capacities of such
27 fictitiously-named defendants when they are ascertained.

1 **E. AGENTS**

2 27. At all relevant times, each defendant was and is the agent of each of the remaining
3 defendants, and in doing the acts alleged herein, was acting within the scope and course of such
4 agency. Each defendant ratified and/or authorized the wrongful acts of each of the other
5 defendants.

6 **F. AIDERS AND ABETTORS**

7 28. Defendants, and each of them, are individually sued as a participant and aider and
8 abettor in the wrongful activities complained of herein, and the liability of each arises from the
9 fact that each has engaged in all or part of the improper acts, plans, schemes, or transactions
10 complained of herein.

11 **G. UNNAMED CO-CONSPIRATORS**

12 29. Various other people and companies have participated as co-conspirators with
13 Defendants in the violations alleged in this Complaint and have performed acts and/or have made
14 statements in furtherance of the violations alleged.

15 **IV. FACTUAL ALLEGATIONS**

16 **A. HISTORY OF THE BANK AND BANCORP**

17 30. Sonoma Valley Bank ("the Bank") began business in or about June 1988 as a
18 subsidiary of Napa Valley Bancorp. In or about 1993, Napa Valley Bancorp merged into
19 WestAmerica Bancorp, at which time the Bank became independent.

20 31. In or about March 2000, the Bank formed Sonoma Valley Bancorp for the purpose
21 of establishing a single-bank holding company structure pursuant to a plan of reorganization.
22 After the reorganization became effective, shares of the Bancorp's common stock were issued
23 to shareholders of the Bank in exchange for their Bank stock. Thereafter, the Company's
24 common stock was quoted on the OTC Bulletin Board, and it filed periodic and current reports
25 with the SEC.

26 32. At all relevant times following the reorganization described above, the primary
27 asset of Bancorp was the Bank. Moreover, until August 20, 2010, when regulatory authorities
28 closed the Bank, Bancorp was the sole shareholder of the Bank.

1 **B. HISTORICAL SHARE VALUE**

2 33. As of August 20, 2010, Bancorp had approximately 2.3 million shares
3 outstanding, which shares were owned, in part, by Plaintiffs and over a thousand other
4 shareholders. During the period 2001 to late 2009, the shares of Bancorp traded at prices as high
5 as \$30.95 per share. (See Exhibit 1, SBNK Equity GP Graph from range 2001-2009, Bloomberg
6 Finance L.P.) By late 2010, after its principal asset, the Bank, was closed, the shares of Bancorp
7 lost virtually all of their trading value. Now the shares trade for approximately \$0.003 per share.
8 (See Exhibit 2, Equity HP Comp/CLOSE/ PRICE for Sonoma Valley Bancorp from range 1/3/11
9 to 7/22/11).

10 **1. Five-Year Daily Stock Values of SBNK**



22 **Chart Source:** Charts for Sonoma Valley Bancorp (SBNK), “5 Yr” tab. OTC Bulletin Board,
23 available at http://www.otcbb.com/asp/Info_Center.asp.

24 34. Since October 2007, \$69 million in share value has vaporized. These incredible
25 losses in share value were entirely preventable.

26 **C. BANCORP'S BONUS AND COMPENSATION ENCOURAGES RISK**
27 **TAKING**

28 35. The Bank and Defendants encouraged dangerous risk-taking by loan officers and

1 executives through incentive compensation and bonus policies. Greed led to a culture at the
2 Bank, and at Bancorp, where violations of standard bank lending practices were rampant and
3 tolerated.

4 36. Until August 19, 2009, when the program was finally dismantled, Bancorp had in
5 place a Cash Incentive Plan. The "Cash Incentive Compensation" component of Bancorp's
6 Executive Compensation program was approved on the recommendation of the Board's
7 Personnel and Policies Committee, in addition to the already existing Equity Incentive Plan
8 offered to all employees. At the Senior Level, the Personnel and Policies Committee explained
9 that the incentive compensation program scheme was designed to "reward company-wide
10 performance by tying the pool available for distribution to senior executives to the earnings
11 growth for the year and the percentage of increase compared to the prior year," according to the
12 Proxy Statement filed with the SEC by Bancorp on April 30, 2008. According to the plan, the
13 amount set aside for the Cash Incentive Program was "determined based upon the net profits for
14 the fiscal year and the amount increase over the prior year's net profits" (*Id.*) From this sum,
15 sixty percent (60%) was allocated to executive management, including named executive officers,
16 and the remaining forty percent (40%) was allocated to management and staff. The Cash
17 Incentive Plan encouraged excessive risk taking by Directors, Officers and employees who were
18 incentivized to churn out loans without proper consideration of risk and without abiding to
19 industry standards. Indeed, when the Cash Incentive Plan was terminated on August 19, 2009,
20 the Personnel and Policies Committee, which voted on the termination, concluded that the Cash
21 Incentive Plan "**may encourage unnecessary and excessive risk taking.**" (*Emphasis added.*)
22 The elimination of the Cash Incentive Plan came too late, the damage of the pervasive culture of
23 risk taking had already taken its toll. In August 2009 when the plan was eliminated, Bancorp
24 shares were trading around \$10.00 a share, or less than one-third their September 2007 level and
25 the company was in a precarious financial situation as reflected in the 3rd Quarter 2009
26 financials that ultimately had to be restated. (*See* Section IV. F., *infra.*)

27 37. Notably, Plaintiff Douglas Ghiselin called into question the proposed incentive
28 plan at the Bancorp 2007 Annual Meeting and challenged the Board to provide data supporting

1 the need for increased incentives but his concerns fell on deaf ears. Mr. Ghiselin's concerns were
2 echoed by former Director Marino who has publicly stated that Bank leaders set up performance
3 bonuses for executives and other policies that enriched themselves at the expense of
4 shareholders. (See Exhibit 3, Kevin McCallum, *Pain of bank seizure ripples through Sonoma*
5 *Valley*. The Press Democrat, Santa Rosa, Calif., Aug. 22, 2010, available at Lexis 20100822.).

6 **D. LENDING OUTSIDE THE COMMUNITY**

7 38. One former board member has publicly decried the Bank's increased willingness
8 in the years leading up to its collapse to make unwise loans to developers with whom that Bank
9 had little prior history. The Bank and its executives also started making loans to non-residents
10 for developments and projects outside of Sonoma Valley, thus frustrating an important principal
11 of community banking – which is that there is safety in a local bank lending to community
12 members that it knows well and can monitor through local community ties.

13 **E. LOANS TO MADJLESSI**

14 39. The collapse of the Bank and the resulting destruction of the Bancorp's share price
15 are attributable, in substantial part, to a series of large loans made by the Bank to a small group
16 of Northbay developers connected to Marin developer Bijan Madjlessi ("Madjlessi"). Madjlessi
17 and his associates, including two of his business partners, Glenn Larsen and James House,
18 received a total of \$54.5 million in loans from the Bank, according to public sources. They have
19 defaulted on at least \$45 million of those loans, equivalent to about 16.4 percent of the total
20 money deposited at the small community bank. According to land records, the loans were made
21 for three Sonoma County projects -- a condominium development in west Santa Rosa, a
22 condo-conversion project at an apartment complex in Petaluma and a self-storage facility in
23 south Santa Rosa. The bottom line is that the Bank (and thus the Bancorp shareholder value)
24 would have survived if not for the failed loans to Madjlessi and his associates.

25 40. When Madjlessi and his business partners began defaulting on the loans in the
26 spring of 2008, the Bank granted them extensions and even loaned them additional money. By
27 doing so, the Bank created a much bigger problem because it gave the appearance that these
28 troubled loans were performing better than they were.

1 41. The Bank lent funds to Madjlessi and associates, even though these same
2 developers were responsible for three Sonoma County projects that fell into foreclosure over the
3 course of the preceding years, and even after it became public in land records and lawsuits that
4 the developers were defaulting on multi-million dollar loans from other banks and were not
5 paying construction contractors.

6 42. For example, in December 2008, the Bank loaned a company operated by
7 Madjlessi \$9.2 million for a combination retail and residential project in west Santa Rosa, Park
8 Lane Villas on Sebastopol Road. Seven months earlier, his company had defaulted on a \$31
9 million loan it had obtained from IndyMac Bank for the same development. When the Bank
10 made the loan, there were already lawsuits by contractors who claimed Madjlessi was not paying
11 his bills for construction of the mixed-us Park Lane Villas project. Not surprisingly, Madjlessi's
12 company eventually defaulted on the \$9.2 million loan, further paving the way for the Bank's
13 failure.

14 43. Former board member Gerald "Jerry" Marino has publicly called into question the
15 Bank's lending practices, including the Bank's \$11 million loan for Madjlessi to develop a
16 selfstorage facility south of Santa Rosa. Marino told the press that the bank was forced into
17 foreclosure and the losses were steep. (*See Exhibit 3.*)

18 44. The details of the Bank's loan for the third Madjlessi project, the condo
19 conversion in Petaluma, known as Petaluma Greenbriar Apartments, are equally sordid. Bank's
20 loan-officer Brian Melland co-owned a company, Magnus Innovations Group, that had created a
21 line of energy drinks targeting Spanish speakers. According to an investigative report:

22 In one instance, the loan officer's startup company received money from Madjlessi's wife
23 only days before he arranged a new loan for her husband. On April 1, 2008, his company
24 received a \$50,000 investment from Biganeh Madjlessi, the wife of Bijan Madjlessi,
25 according to a copy of the investment agreement obtained by The Press Democrat. That
26 same week in 2008, Sonoma Valley Bank made \$3.7 million in loans to one of Bijan
27 Madjlessi's companies involved in the condo-conversion project in Petaluma, according
28 to county land records. Melland helped arrange the loans, part of \$11.1 million in loans
made during a five-month period for the Petaluma project. Those loans eventually went
into default in 2010, and the Petaluma apartment buildings used as collateral were
recently valued at only 22 percent of the outstanding loan amount, according to court
records.

...

1 According to the 2008 investment agreement, by the times the bank loans were made,
2 Biganeh Madjlessi and a business partner of her husband had invested \$250,000 in
Melland's company.

3 (See Exhibit 4, Nathan Halverson, *Feds investigate lending by failed Sonoma bank*, The Press
4 Democrat, Santa Rosa, Calif., July 24, 2011, available at Lexis 20110724.) Upon information
5 and belief, the Bank was aware of the intermingling of personal and Bank business by its
6 employee and took no action.

7 45. Based on public accounts, in addition to loans for Madjlessi-related real estate
8 projects, the Bank issued loans to business partners and employees of Madjlessi on favorable
9 terms that were imprudent and risky. *The Press Democrat* reported:

10 [I]n early 2009, the bank made a \$5.5 million unsecured loan to one of Madjlessi's
11 business associates, James House -- a loan that Madjlessi had helped arrange. At that
12 time, near the peak of the financial crisis when the economy ground to a halt because
13 banks were not lending, it was highly unusual to receive a loan without providing some
14 form of collateral such as a real estate deed. Yet Sonoma Valley Bank did not record any
security from House until 11 months after making the loan, and during that time it loaned
him an additional \$4 million, according to public records. It eventually recorded collateral
on the combined \$9.5 million loan with the Sonoma County Recorder's Office in early
2010.

15 (See Exhibit 4).

16 46. The Madjlessi loans should never have been made for a myriad of reasons. By
17 lending to Madjlessi, the Bank was literally throwing good money after bad. The lending
18 decisions were based on the personal relationships and personal financial interests of the loan
19 officers, Officers and Directors, and ran counter to the interests of Bancorp and its shareholders.
20 The loans violated the Bank's purpose of lending within the local community and the Bank's
21 long-held restrictions on lending outside the Sonoma Valley area. Further, Defendants knew, or
22 should have known, that Madjlessi was unitizing straw borrowers and that by making these loans
23 Defendants were in violation of legal lending limits.

24 **F. BANCORP MISSTATES FINANCIALS AND IS FORCED TO RESTATE**
25 **2009 3rd QUARTER 10-Q**

26 47. Despite the Bank's worsening financial situation in 2009 and monumental loan
27 defaults, the Bank continued to file 2009 quarterly and annual statements with the SEC, which
28 painted a picture of relative stability and failed to disclose the true finances of the Bank.

1 48. Notably, on November 12, 2009, the Bank filed its 3rd Quarter 2009 10-Q which
2 reported shareholders' equity of nearly \$38 million and provision for loan and lease losses of only
3 \$2.55 million (for the 3 months ended September 30, 2009). The 3rd Quarter 10-Q was signed
4 and certified by Cutting, as President and Chief Executive Officer and Principal Executive
5 Officer, and by Smith, as Executive Vice President and Chief Financial Officer, and as Principal
6 Financial Officer and Principal Accounting Officer.

7 49. On February 19, 2010 Bancorp issued a Third Quarter Restatement Press Release
8 (8-K) announcing for the first time that due to a recent regulatory examination, and the resulting
9 regulatory findings, that its previously issued 3rd Quarter financial statements could no longer be
10 relied upon. On March 31, 2010, Bancorp issued its Amended and Restated 3rd Quarter 10-Q.
11 The restatement resulted in a decrease in total shareholders' equity of approximately \$18.5
12 million to approximately \$19.2 million from the previously reported amount of \$37.7 million. In
13 addition, the provision for loan and lease losses for solely the third quarter of 2009 increased
14 from \$2.6 million to \$24.5 million. As a result, Bancorp's net loss after tax available to common
15 shareholders for the three months ended September 30, 2009 was increased from \$495,180, as
16 originally reported, to approximately \$19.0 million following the restatement.

17 50. Bancorp issued it's 2009 Annual Statement (10-K) on March 31, 2010, the very
18 same day it issued it's Amended 3rd Quarter 2009 10-Q. However, Bancorp subsequently had to
19 file an Amended 2009 Annual Statement (10-K) on April 30, 2010, to disclose required
20 information about executive compensation and share ownership.

21 51. The extent of the Bank's imprudent loan activity also can be generally determined
22 from a review of its Form 10-K for the fiscal year ended December 31, 2009. Note D to the
23 Financial Statements, which describes Loans and Leases and Allowance for Loan and Lease
24 Losses, states that the provision for loan and lease losses was \$680,000 for the fiscal year ended
25 2008 but had increased to \$31,130,000 for the fiscal year ended 2009. Similarly, the amount of
26 loans charged off jumped from approximately \$1,028,000 in 2008 to approximately \$23,395,000
27 in 2009.

1 **G. FDIC DIRECTIVE AND COLLAPSE OF THE BANK**

2 52. Due to its imprudent loan activity, the Bank received a Supervisory Prompt
3 Corrective Action Directive (the "Directive") from the Federal Deposit Insurance Corporation
4 ("FDIC") on April 14, 2010, which was reported to shareholders through an 8-K filing seven
5 days later, on April 21, 2010. The Directive noted that the FDIC had notified the Bank, much
6 earlier in the year, on February 1, 2010, that the Bank was undercapitalized as of December 31,
7 2009 under regulatory capital guidelines, and that the Bank had been given the opportunity to
8 submit a capital restoration plan, but that the plan submitted by the Bank was unacceptable. The
9 Directive imposed a number of requirements on the Bank and provided the Bank a last
10 opportunity to cure its undercapitalization.

11 53. Ultimately, Bank executives were tasked with raising about \$20 million to meet
12 federal guidelines; however, they failed to meet the initial May 13, 2010 deadline, and then the
13 subsequent August 15, 2010 deadline. The failed loans to Bijan Madjlessi, his related entities
14 and associates dwarfed the \$20 million that would have saved the Bank from failure and directly
15 led to the August 20, 2010 closure of the Bank by the California Department of Financial
16 Institutions and the appointment of a receiver by the FDIC^{1/}.

17 54. Subsequent to the closure of the Bank, WestAmerica Bank of San Rafael,
18 California ("WestAmerica") acquired substantially all of the deposits and assets of the Bank from
19 the FDIC as receiver of the Bank. Bancorp was not included in the receivership.

20 55. In short, due to imprudent loan activity in 2008 and 2009, including an excessive
21 concentration of loans to borrowers lacking the requisite ability to repay the loans, compensation
22 policies that tied loan generation to compensation and bonuses, and the ethically questionable
23 actions of Defendants, the Bank and Bancorp have been destroyed. The result was the complete
24 destruction of the investments in Bancorp stock, because the primary asset of Bancorp, the Bank,

25
26 ¹ According to the FDIC published information on the Bank's failure, "All shares of
27 Sonoma Valley Bank were owned by its holding company, Sonoma Valley Bancorp,
28 Sonoma, CA. The holding company was not included in the closing of the bank or the
resulting receivership." The FDIC expressly informed Bancorp shareholders not to
contact or file claims with the Receiver. (*FDIC: Failed Bank Information - Bank Closing
Information for Sonoma Valley Bank*, May 6, 2011, available at
<http://www.fdic.gov/bank/individual/failed/sonoma.html>)

1 lost all value upon closure and entering receivership.

2 56. The near total loss of share value was devastating to shareholders, many of whom
3 were ordinary residents of Sonoma County. After all, the Bank had encouraged its customers to
4 become shareholders in their local Bank through promotions such as one at the beginning of the
5 Bank where one could become a "charter shareholder" upon purchase of 10 shares for \$100 and
6 receive a free checking account. Over the years, many of these customer-shareholders, like
7 Plaintiffs, continued to invest in the community bank.

8 **H. OFFICERS AND DIRECTORS TRY TO DEFLECT BLAME**

9 57. Demonstrating a strong measure of arrogance, shortly after the closure, on
10 September 11, 2010, Cutting issued a public statement signed by bank directors blaming the
11 sharp real estate downturn for their troubled loans. They said overly aggressive regulators shut
12 down a stable, profitable bank that had earned a reputation over two decades of being "one of the
13 most generous, helpful, caring and supportive institutions in town." (See Exhibit 5, Commentary:
14 *Sonoma Valley Bank directors devastated by FDIC Seizure*, North Bay Business Journal, Sept.
15 11, 2010, available at [http://www.north](http://www.northbaybusinessjournal.com/24843)
16 [baybusinessjournal.com/24843](http://www.northbaybusinessjournal.com/24843).) Switzer commented that "Our board just doesn't feel this was
17 necessary at all." (See Exhibit 3.) In contradiction to Cutting and Switzer, former board
18 member Marino took a more rational approach, saying, "They're blaming the FDIC but I blame
19 the loan committee because the buck stops there."

20 58. Nicholas, Chairman of the Bank's board, blamed overzealous regulators, whom he
21 referred to as "the forces of evil," in an interview. Nicolas has gone on the record defending the
22 Bank's lending practices as sound, and even after the collapse, he disputed that the Bank had
23 loaned too much money to Madjlessi. (See Exhibit 6, Sonoma Valley Bank's downfall, Nathan
24 Halverson, *The Press Democrat*, Santa Rosa, Calif., Aug. 22, 2010, available at Lexis 20110123.)

25 **V. FUTILITY OF PRE-FILING DEMAND**

26 59. Plaintiffs have not made any demand on Bancorp's Board of Directors to
27 investigate and prosecute the wrongdoing alleged herein. Such a demand is excused because: (i)
28 making a demand would be a futile and useless act as the majority of Bancorp's directors are not

1 able to conduct an independent and objective investigation of the alleged wrongdoing; and (ii)
2 the wrongful conduct of Defendants is not subject to protection under the business judgment rule.

3 **A. THE MAJORITY OF THE BOARD CANNOT CONDUCT AN**
4 **OBJECTIVE AND INDEPENDENT INVESTIGATION OF THE**
5 **WRONGDOING**

6 60. The California Supreme Court has held for over a century that the demand
7 requirement is excused if making such a demand on the Board of Directors would be futile.
8 *Ashton v. Dashaway Ass'n* (1890) 84 Cal. 61; *Woodruff v. Howes* (1891) 88 Cal. 184. Such is the
9 case here because the majority of Bancorp's directors have interests adverse to making a fair,
10 unbiased investigation.

11 61. As of the time of the Bank closure, and upon information and belief, as of the
12 commencement of this derivative lawsuit, the Board consisted of eight directors – Defendants
13 Switzer, Cutting, Nicholas, Brangham, Downing, Hitchcock, Pistole, and Dieter. The Audit
14 Committee was made up of four of those directors: Hitchcock, Downing, Nicholas and Pistole.
15 Demanding that the Board investigate and act upon the wrongdoing alleged herein would be
16 futile, since the majority of the Directors engaged in the wrongdoing alleged herein and have
17 interests adverse to doing a fair, unbiased investigation.

18 62. It defies logic that the very people who engaged in wrongdoing, including in
19 making the false and misleading statements, in order to reap the benefits of high stock prices and
20 compensation could perform an objective investigation into their own malfeasance. Moreover,
21 Bancorp's directors' and officers' liability insurance has an "insured vs. insured" exclusion. This
22 exclusion requires that Defendants would not be insured for any liability if they caused Bancorp
23 to sue its officers and directors, i.e., themselves, for the allegations asserted in this action.
24 Defendants cannot rationally be expected to cause this to occur. This derivative action does not
25 trigger the "insured vs. insured" exclusion, as Defendants have not caused Bancorp to sue its
26 officers and directors. Instead, Plaintiffs, on behalf of Bancorp, have caused the derivative action
27 to occur. As such, Bancorp may be able to obtain a recovery from its officers' and directors'
28 liability insurance.

1 **1. Defendant Mel Switzer, Jr.**

2 63. Defendant Switzer was known as the "Old Man" because of his role in later years
3 and long relationship with the Bank from its early years. Switzer was a Director and the Vice
4 Chairman of the Board of Bancorp from June 2006 until at least August 20, 2010. Switzer was
5 also President and Chief Executive Officer of the Bank from 1990 until 2009 and Chairman of
6 the Board of the Bank from 2008 until it was closed. Mr. Switzer has extensive knowledge and
7 experience in the banking industry, including previously serving as the CEO of County Bank and
8 Trust Company in Santa Cruz, California.

9 64. In his roles as President and CEO and as a Director and an Officer, Switzer failed
10 to ensure that Bancorp's financial results were accurately stated. Switzer also failed to properly
11 supervise the loan activities of the Bank, including the activities of Defendant Cutting and the
12 massive, concentrated loans made to Madjlessi described above.

13 65. Because Defendant Switzer will be considering his own interests as they relate to
14 his potential personal liability, he cannot be expected to perform an unbiased investigation into
15 his own acts.

16 **2. Defendant Sean Cutting**

17 66. Defendant Cutting was the Chief Executive Officer of Bancorp until at least
18 August 20, 2010 and Chief Executive Officer of the Bank from February 2009 until it was
19 closed. Mr. Cutting joined the lending group of the Bank as Vice President in 2002, and in 2006
20 was named Executive Vice President and Chief Lending Officer, overseeing the lending group
21 and all lending operations for the Bank. In 2008, Mr. Cutting was also the Chief Administrative
22 Officer of the Bank. Mr. Cutting had worked as a Corporate Banking Officer and an Investment
23 Consultant for other banks and investment firms prior to his joining Sonoma Valley Bank.

24 67. As Chief Executive Officer of both entities and Chief Lending Officer of the Bank
25 during the relevant period, Cutting is the Bank officer whom played one of the most significant
26 roles surrounding the imprudent loan activity that destroyed both the Bank and Bancorp. He is
27 also directly responsible for Bancorp's misstated financials. Cutting repeatedly touted the
28 strength of the Bank to shareholders, even as the Bank was failing. For instance, at the final

1 shareholders' meeting Cutting made a presentation to the shareholders that was misleading and
2 talked about how loans had been restructured into performing loans, but this was directly counter
3 to the view of Federal regulators who found the loans to be in default.

4 68. Because Defendant Cutting will be considering his own interests as they relate to
5 his potential personal liability, he cannot be expected to perform an unbiased investigation into
6 his own acts.

7 **3. Defendant Robert J. Nicolas**

8 69. Defendant Nicolas was a director and the Chairman of the Board of Bancorp
9 from its formation in November 2000 until at least August 20, 2010. Nicolas was also a
10 Director of the Bank from its formation in 1988 until it was closed in August 2010. Mr.
11 Nicolas was also the Chairman of the Board of Directors for Nicholas Turkey Farms from 1982
12 until his retirement in 1992.

13 70. During the relevant time period, Bancorp had an Audit Committee, of which
14 Nicolas was a member along side Defendants Hitchcock, Downing, and Pistole. Among other
15 things, the Bancorp's Audit committee was responsible for reviewing Bancorp's internal
16 accounting procedures and, hence, accurately reporting Bancorp's financial results to the
17 investing public. Given the massive financial restatements for the nine and three month periods
18 ended September 30, 2009, the Audit Committee clearly failed to discharge its responsibilities
19 and, in so doing, acted negligently in regards to monitoring Bancorp's internal accounting
20 procedures.

21 71. In his roles as Chairman of the Board and as a Director, Nicolas failed to ensure
22 that Bancorp's financial results were accurately stated. Nicolas also failed to properly supervise
23 the loan activities of the Bank, and bears responsibility for the concentrated loans made to
24 Madjlessi described above.

25 72. Because Defendant Nicolas will be considering his own interests as they relate to
26 his potential personal liability, he cannot be expected to perform an unbiased investigation into
27 his own acts.

1 **4. Defendant Suzanne Brangham**

2 73. Defendant Brangham was Secretary since 2001 and a director of Bancorp from its
3 formation in November 2000 until at least August 20, 2010. Brangham was also a Director of
4 the Bank from March 1995 until it was closed. Ms. Brangham is a developer, restaurateur, and
5 hotelier, whose projects include the luxury hotel and spa, MacArthur Place, located in Sonoma.

6 74. In her roles as Secretary of the Board and as a Director, Brangham failed to ensure
7 that Bancorp's financial results were accurately stated. Brangham also failed to properly
8 supervise the loan activities of the Bank, and bears responsibility for the concentrated loans made
9 to Madjlessi described above.

10 75. Because Defendant Brangham will be considering her own interests as they relate
11 to his potential personal liability, she cannot be expected to perform an unbiased investigation
12 into her own acts.

13 **5. Defendant Dale T. Downing**

14 76. Defendant Downing was a Director of Bancorp from its formation in November
15 2000 until at least August 20, 2010. Mr. Downing was also a Director of the Bank from its
16 formation in 1988 until it was closed. Mr. Downing established the Shone's County Store in
17 Glen Ellen and Downing Markets in El Verano, and, with a relative, purchased the Sonoma
18 Market in Sonoma.

19 77. During the relevant time period, Bancorp had an Audit Committee, of which
20 Downing was a member along side Defendants Hitchcock, Nicholas and Pistole. Among other
21 things, the Bancorp's Audit committee was responsible for reviewing Bancorp's internal
22 accounting procedures and, hence, accurately reporting Bancorp's financial results to the
23 investing public. Given the massive financial restatements for the nine and three month periods
24 ended September 30, 2009, the Audit Committee clearly failed to discharge its responsibilities
25 and, in so doing, acted negligently in regards to monitoring Bancorp's internal accounting
26 procedures.

27 78. In his role as a Director, Downing failed to ensure that Bancorp's financial results
28 were accurately stated. Downing also failed to properly supervise the loan activities of the Bank,

1 and bears responsibility for the concentrated loans made to Madjlessi described above.

2 79. Because Defendant Downing will be considering his own interests as they relate
3 to his potential personal liability, he cannot be expected to perform an unbiased investigation into
4 his own acts.

5 **6. Defendant Robert B. Hitchcock**

6 80. Defendant Hitchcock was a Director of Bancorp from its formation in November
7 2000 until at least August 20, 2010. Mr. Hitchcock was also a Director of the Bank from its
8 formation in 1988 until it was closed. Mr. Hitchcock also served as President of Nicholas
9 Turkey Breeding Farms from 1982 until his retirement in 1992.

10 81. During the relevant time period, Bancorp had an Audit Committee, of which
11 Hitchcock was a member along side Defendants Downing, Nicholas and Pistole. Among other
12 things, the Bancorp's Audit committee was responsible for reviewing Bancorp's internal
13 accounting procedures and, hence, accurately reporting Bancorp's financial results to the
14 investing public. Given the massive financial restatements for the nine and three month periods
15 ended September 30, 2009, the Audit Committee clearly failed to discharge its responsibilities
16 and, in so doing, acted negligently in regards to monitoring Bancorp's internal accounting
17 procedures.

18 82. In his role as a Director, Hitchcock failed to ensure that Bancorp's financial results
19 were accurately stated. Hitchcock also failed to properly supervise the loan activities of the
20 Bank, and bears responsibility for the concentrated loans made to Madjlessi described above.

21 83. Because Defendant Hitchcock will be considering his own interests as they relate
22 to his potential personal liability, he cannot be expected to perform an unbiased investigation into
23 his own acts.

24 **7. Defendant Valerie Pistole**

25 84. Defendant Pistole was a Director of Bancorp from August 2007 until at least
26 August 20, 2010. Pistole was also a Director of the Bank from October 2006 until it was closed.
27 Ms. Pistole is a local attorney practicing in the areas of business and estate planning for both
28 individuals and business at her law firm, Walter and Pistole, in Sonoma.

1 85. During the relevant time period, Bancorp had an Audit Committee, of which
2 Pistole was a member along side Defendants Hitchcock, Downing, and Nicholas. Among other
3 things, the Bancorp's Audit committee was responsible for reviewing Bancorp's internal
4 accounting procedures and, hence, accurately reporting Bancorp's financial results to the
5 investing public. Given the massive financial restatements for the nine and three month periods
6 ended September 30, 2009, the Audit Committee clearly failed to discharge its responsibilities
7 and, in so doing, acted negligently in regards to monitoring Bancorp's internal accounting
8 procedures.

9 86. In her role as a Director, Pistole failed to ensure that Bancorp's financial results
10 were accurately stated. Pistole also failed to properly supervise the loan activities of the Bank,
11 and bears responsibility for the concentrated loans made to Madjlessi described above.

12 87. Because Defendant Pistole will be considering her own interests as they relate to
13 her potential personal liability, she cannot be expected to perform an unbiased investigation into
14 her own acts.

15 **8. Defendant Mary Dieter**

16 88. Defendant Dieter was the Executive Vice President, Chief Financial Officer and
17 Assistant Corporate Secretary of Bancorp from its formation in November 2000 until at least
18 August 20, 2010. Ms. Dieter was Vice President, Chief Financial Officer and Assistant
19 Corporate Secretary of the Bank from June 1988 to January 1993, and thereafter was its
20 Executive Vice President, Chief Financial Officer, and Assistant Corporate Secretary.

21 89. In her roles as Executive Vice President, Vice President, Chief Financial Officer
22 and Assistant Corporate Secretary, Dieter failed to ensure that Bancorp's financial results were
23 accurately stated. Specifically, As Chief Financial Officer, Dieter was directly responsible for
24 keeping and maintaining adequate and correct accounts of the assets, liabilities, receipts,
25 disbursements, gains, losses, capital, and surplus of both the Bank and Bancorp. Dieter also
26 failed to properly supervise the loan activities of the Bank, and bears responsibility for the
27 concentrated loans made to Madjlessi described above.

28 90. Because Defendant Dieter will be considering her own interests as they relate to

1 her potential personal liability, she cannot be expected to perform an unbiased investigation into
2 her own acts.

3 **VI. CAUSES OF ACTION**

4 **FIRST CAUSE OF ACTION**

5 **DERIVATIVE CLAIM FOR BREACH OF FIDUCIARY DUTY**
6 **(AGAINST ALL OFFICER AND DIRECTOR DEFENDANTS)**

7 91. Plaintiffs hereby incorporate by reference the allegations above as though fully set
8 forth hereinafter.

9 92. Defendants owed and owe Bancorp fiduciary obligations and were and are
10 required to (i) use their ability to manage Bancorp in a fair, just, and equitable manner; (ii) act in
11 furtherance of the best interests of Bancorp and its shareholders; (iii) govern Bancorp in a
12 manner which benefits Bancorp and its shareholders and not their personal interests or
13 preferences; (iv) refrain from abusing their positions of control, power, prestige, and profit; (v)
14 not favor their own interests at the expense of Bancorp and its shareholders; (vi) truthfully,
15 promptly, and accurately report on the status of Bancorp and its operations and finances to the
16 shareholders; and (vii) avoid and prevent corporate waste and unnecessary expense. By reason of
17 their fiduciary relationships, Defendants owed and owe Bancorp the highest obligation of good
18 faith, fair dealing, loyalty, and due care. Defendants breached each of the aforementioned duties.

19 93. As fiduciaries, Defendants were also responsible for supervising the lending
20 activities of the Bank's officers, including assessing the prudence of such lending activities, the
21 concentration of the loan portfolio and the quality of the collateral supporting the Bank's loans.
22 Defendants breached their fiduciary duties to Bancorp and to Plaintiffs and the other shareholders
23 by engaging in the conduct alleged herein above, including the making or approving of the
24 imprudent loans described herein and/or in failing to properly supervise those who were
25 responsible for making or approving such loans.

26 94. Defendants further breached their fiduciary duties to Bancorp and to Plaintiffs and
27 the other shareholders by making misrepresentations of and/or omitting to state material facts in
28 their public reports filed on behalf of Bancorp. The aforesaid misrepresented and/or omitted

1 facts directly lead to the collapse of share price as investors and potential investors lost
2 confidence in the management of Bancorp and the Bank and directly led to the inability of the
3 Bank to respond to the FDIC Directive in a satisfactory manner and avoid closure.

4 95. Defendants further breached their fiduciary duties to Bancorp and Bancorp's
5 shareholders by failing to inform Bancorp's board about mismanagement of the Bank as alleged
6 herein. In addition, Defendants failed to direct Bancorp (as a sole shareholder of the Bank) to
7 respond to the mismanagement at the Bank by changing the Bank management.

8 96. As set forth above, Defendants, and each of them, violated and breached their
9 fiduciary duties of care, loyalty, reasonable inquiry, oversight, good faith, and supervision.

10 97. Defendants, and each of them, intentionally or recklessly caused Bancorp to
11 engage in the wrongful conduct described herein, or were reckless or intentional in failing to
12 prevent Bancorp from engaging in such conduct and to ascertain and avert such misconduct.

13 98. Defendants, and each of them, engaged in the acts and omissions alleged herein
14 with the intent to gain a personal advantage to the detriment of Bancorp.

15 99. Defendants, and each of them, aided and abetted, encouraged and rendered
16 substantial assistance to each other in accomplishing the wrongful conduct, acts and omissions
17 and wrongful goals complained of herein. In aiding and abetting and substantially assisting the
18 commission of these wrongful acts, each of the Defendants acted with an awareness of his
19 wrongdoing and realized that his or her conduct would substantially assist the accomplishments
20 of the wrongful conduct, wrongful goals, and wrongdoing.

21 100. As a result of Defendants' wrongful conduct, and the wrongful conduct of each of
22 them, Bancorp has suffered and continues to suffer economic losses and non-economic losses,
23 such as loss of reputation and goodwill. Bancorp has also suffered other general and specific
24 damages including, but not limited to, lost profits, lost interest, the expenses arising from
25 investigations, financial losses arising from corporate waste, all in an amount to be determined
26 according to proof at the time of trial. Bancorp is also entitled to disgorgement of the
27 compensation obtained by Defendants as a result of payments of salaries, bonuses, and other
28 economic and non-economic compensation paid to them which would not have otherwise been

1 paid but for the wrongful conduct of Defendants.

2 **SECOND CAUSE OF ACTION**

3 **DERIVATIVE CLAIM FOR ABUSE OF CONTROL**

4 **(AGAINST ALL OFFICER AND DIRECTOR DEFENDANTS)**

5 101. Plaintiffs hereby incorporate by reference the allegations above as though fully set
6 forth hereinafter.

7 102. Defendants dominated and controlled the business affairs of Bancorp through
8 their stock ownership, relationships with other defendants, director positions, management
9 positions, financial dealings, and otherwise. In doing the acts described herein, Defendants acted
10 to further their own private financial and personal interests to the detriment of Bancorp in abuse
11 of their positions of control.

12 103. Defendants, and each of them, breached their fiduciary obligations to Bancorp.
13 Defendants, and each of them, knew or should have known that the acts and omissions of the
14 other defendants constituted a breach of duty and an abuse of control.

15 104. Each defendant knowingly gave substantial assistance to the other defendants in
16 such conduct, thus aiding and abetting the violations of the other defendants. Without such
17 substantial assistance and encouragement by Defendants, the wrongful acts could not have
18 occurred.

19 105. As a result of the wrongful conduct of Defendants, and the wrongful conduct of
20 each of them, Bancorp has suffered and continues to suffer economic losses and non-economic
21 losses, such as the loss of reputation and goodwill. Bancorp has also suffered other general and
22 specific damages including, but not limited to, lost profits, lost interest, the expenses arising from
23 investigations, financial losses arising from corporate waste, all in an amount to be determined
24 according to proof at the time of trial. Bancorp is also entitled to disgorgement of the
25 compensation obtained by Defendants as a result of payments of salaries, bonuses, and other
26 economic and non-economic compensation paid to them which would not have otherwise been
27 paid but for the wrongful conduct of Defendants.

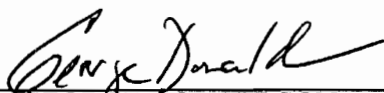
1 **VII. PRAYER FOR RELIEF**

2 WHEREFORE, Plaintiffs, derivatively on behalf of Bancorp, pray for the following
3 relief:

- 4 1. Compensatory and general damages according to proof;
- 5 2. Special damages according to proof;
- 6 3. Restitution and disgorgement of profits;
- 7 4. Prejudgment interest at the maximum legal rate;
- 8 5. Costs of the proceedings herein;
- 9 6. Reasonable attorneys' fees; and,
- 10 7. All other and further relief as the Court deems just.


11
12 DATED: August 26, 2011

LAW OFFICES OF GEORGE DONALDSON

13
14 By: 
15 GEORGE DONALDSON
16 *Attorneys for Plaintiffs,*
derivatively on behalf of Sonoma Valley Bancorp

17 DATED: August 26, 2011

COTCHETT, PITRE & McCARTHY, LLP

18
19 By: 
20 ANNE MARIE MURPHY
21 *Attorneys for Plaintiffs,*
derivatively on behalf of Sonoma Valley Bancorp

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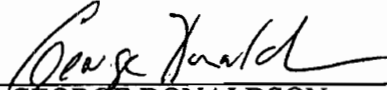
1 **VIII. DEMAND FOR JURY TRIAL**

2 Plaintiffs hereby demand a trial by jury of all issues so triable.

3 DATED: August 26, 2011

LAW OFFICES OF GEORGE DONALDSON

4
5 By:



6 **GEORGE DONALDSON**

*Attorneys for Plaintiffs,
derivatively on behalf of Sonoma Valley Bancorp*

7
8 DATED: August 26, 2011

COTCHETT, PITRE & McCARTHY, LLP

9
10 By:



11 **ANNE MARIE MURPHY**

*Attorneys for Plaintiffs,
derivatively on behalf of Sonoma Valley
Bancorp*

1 **PROOF OF SERVICE**

2 I am employed in the County of San Mateo; I am over the age of 18 years and not a party
3 to the within cause. My business address is the Law Offices of Cotchett, Pitre & McCarthy, LLP,
4 San Francisco Airport Office Center, 840 Malcolm Road, Burlingame, California, 94010. On this
5 day, I served the following document(s) in the manner described below:

6 **1. FIRST AMENDED COMPLAINT**

7 **VIA FIRST CLASS MAIL:** I am readily familiar with this firm's practice for collection
8 and processing of correspondence for mailing. Following that practice, I placed a true
9 copy of the aforementioned document(s) in a sealed envelope, addressed to each
10 addressee, respectively, as specified below. The envelope was placed in the mail at my
11 business address, with postage thereon fully prepaid, for deposit with the United States
12 Postal Service on that same day in the ordinary course of business.

13 **[SEE ATTACHED SERVICE LIST]**

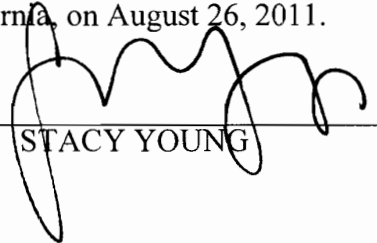
14 **VIA FACSIMILE:** I am readily familiar with this firm's practice for causing documents
15 to be served by facsimile. Following that practice, I caused the aforementioned
16 document(s) to be transmitted to the telephone number(s) of the addressee(s) specified
17 below.

18 **VIA OVERNIGHT COURIER SERVICE:** I am readily familiar with this firm's
19 practice for causing documents to be served by overnight courier. Following that
20 practice, I caused the sealed envelope containing the aforementioned document(s) to be
21 delivered via overnight courier service to the addressee(s) specified below.

22 **VIA HAND DELIVERY:** I am readily familiar with this firm's practice for causing
23 documents to be served by hand delivery. Following that practice, I caused the sealed
24 envelope containing the aforementioned document(s) to be hand delivered to the
25 addressee(s) specified below.

26 **VIA E-MAIL:** My e-mail address is syoung@cpmlegal.com. I am readily familiar with
27 this firm's practice for causing documents to be served by e-mail. Following that
28 practice, I caused the aforementioned document(s) to be emailed to the addressee(s)
specified below.

I declare under penalty of perjury, under the laws of the State of California, that the
foregoing is true and correct. Executed at Burlingame, California, on August 26, 2011.



STACY YOUNG

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10 *Attorneys for Plaintiffs,*
11 *Derivatively on behalf of Sonoma Valley Bancorp*

12 **SUPERIOR COURT OF THE STATE OF CALIFORNIA**
13 **IN AND FOR THE COUNTY OF SONOMA**

14 NEWTON DAL POGGETTO, an individual;
DOUGLAS R. GHISELIN, as Trustee of the Douglas
15 R. Ghiselin and Patricia A. Ghiselin Revocable Trust
dated May 30, 1996 and restated July 19, 2011; and,
16 PATRICIA A. GHISELIN, as Trustee of the Douglas
R. Ghiselin and Patricia A. Ghiselin Revocable Trust
17 dated May 30, 1996 and restated July 19, 2011, all
derivatively on behalf of Sonoma Valley Bancorp;

18 Plaintiffs,

19 v.

20 MEL SWITZER, an individual; SEAN CUTTING, an
individual; ROBERT J. NICHOLAS, an individual;
21 SUZANNE BRANGHAM, an individual; DALE T.
DOWNING, an individual; ROBERT B.
22 HITCHCOCK, an individual; VALERIE PISTOLE, an
individual; MARY DIETER SMITH, an individual;
23 and DOE DEFENDANTS 1 through 100,

24 Defendants.

25 and

26 SONOMA VALLEY BANCORP,
Nominal Defendant.
27

**ENDORSED
FILED**

SEP - 6 2011

SUPERIOR COURT OF CALIFORNIA
COUNTY OF SONOMA

Case No. SCV-249917

**EXHIBITS ONE THROUGH SIX
TO FIRST AMENDED
COMPLAINT FOR: (1.) BREACH
OF FIDUCIARY DUTY; AND (2.)
ABUSE OF CONTROL**

BY FAX



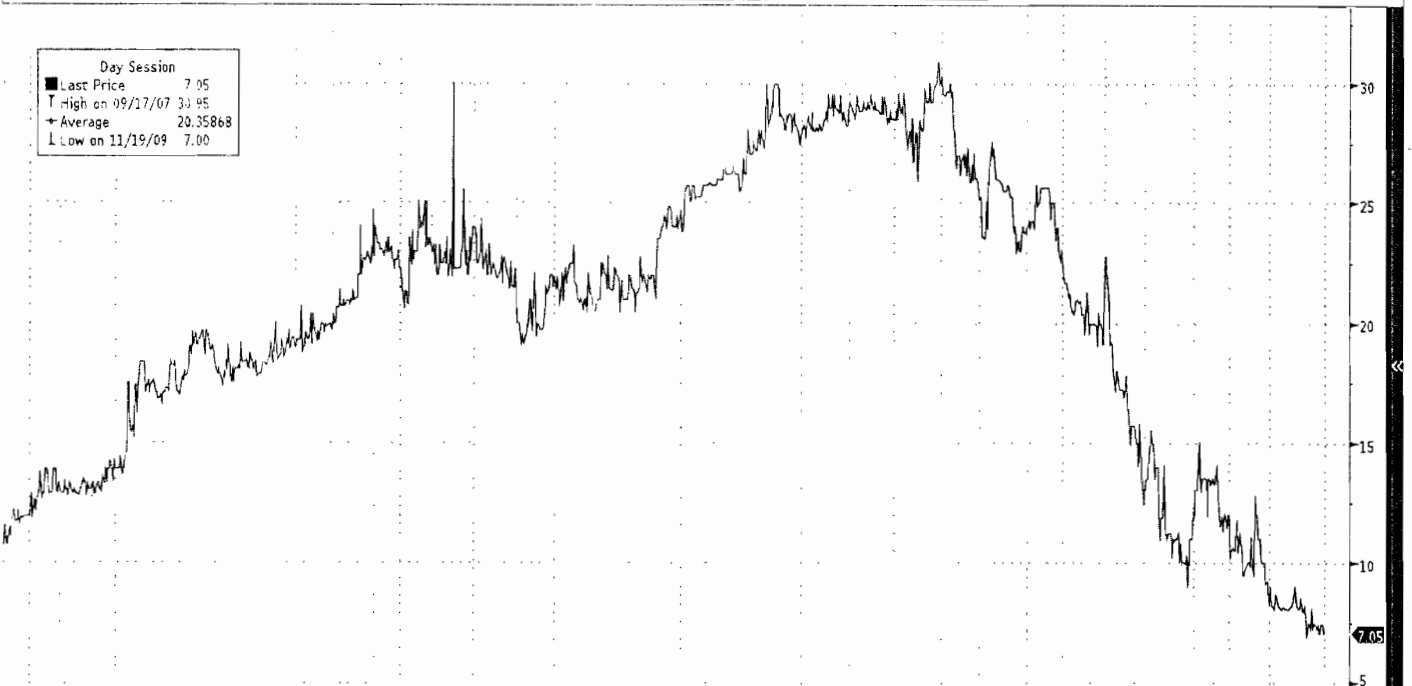
Exhibit 1

SBNK US \$ Mkt .0032/.01 497x50 DELAYED .0032

SBNK US EQUITY Save Chart Hide GP - Line Chart Page 1/54

Range 01/09/01 - 12/31/09 Upper Trade Line Mov. Avgs Currency USD
 Period Daily Lower None Mov. Avg

Day Session
 Last Price 7.95
 High on 09/17/07 33.95
 Average 20.35868
 Low on 11/19/09 7.00



Mar '01 Sep '01 Dec '01 Jun '02 Dec '02 Mar '03 Jun '03 Sep '03 Dec '03 Mar '04 Jun '04 Sep '04 Dec '04 Mar '05 Jun '05 Sep '05 Dec '05 Mar '06 Jun '06 Sep '06 Dec '06 Mar '07 Jun '07 Sep '07 Dec '07 Mar '08 Jun '08 Sep '08 Dec '08 Mar '09 Jun '09 Sep '09 Dec '09
 Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2011 Bloomberg Finance L.P.
 SN 790526 EDT GMT-4:00 6455-651-0 11-Aug-2011 14:12:06

Exhibit 2

<HELP> for explanation.

Equity**HP**

Comp/CLOSE/PRICE

Daily
Trade

HI .025 ON 2/25/11
 AVE .00643 VL 3018
 LOW .00119 ON 1/ 7/11

DATE	PRICE	VOLUME	DATE	PRICE	VOLUME	DATE	PRICE	VOLUME
F	.00319	1962	F	.00319	172	F		
T	.00319	172	T			T	.003	45531
W			W			W		
T			T			T	.00269	430
M	.00319	1962	M	.00319	1114	M		
F			F			F		
T			T			T	.00269	264
W			W			W		
T			T	.003	300	T		
M	.00319	5400	M			M		
F			F	.003	4615	F		
T			T			T	.00269	800
W			W			W		
T			T	.003	550	T		
M			M			M	.0025	2356

<HELP> for explanation.

EquityHP

Comp/CLOSE/PRICE

Daily
Trade

HI .025 ON 2/25/11
 AVE .00643 VL 3018
 LOW .00119 ON 1/ 7/11

DATE	PRICE	VOLUME	DATE	PRICE	VOLUME	DATE	PRICE	VOLUME
F	.0025	845	F			F		
T			T			T		
W	.0025	550	W	.0025	1583	W	.00231	534
T			T	.0025	500	T		
M			M	.0025	125	M	.00231	3242
F			F			F	.00231	987
T			T			T	.00231	750
W	.02	10000	W			W	.00219	29500
T	.0025	470	T			T		
M	.0025	24700	M	.01	7000	M	.00219	227
F	.0025	1008	F	.01	10339	F		
T			T			T	.00219	1023
W	.0195	30922	W			W	.00219	300
T	.0025	574	T			T		
M	.0025	288	M			M		

<HELP> for explanation.

EquityHP

Comp/CLOSE/PRICE

Daily Trade
 HI .025 ON 2/25/11
 AVE .00643 VL 3018
 LOW .00119 ON 1/7/11

DATE	PRICE	VOLUME	DATE	PRICE	VOLUME	DATE	PRICE	VOLUME
F			F	.025	3304	F	.013	37155
T			T	.00219	2187	T		
W			W	.00213	4482	W		
T			T			T		
M	.00213	4166	M			M		
F	.01938	8485	F	.013	6040	F		
T			T	.02	10604	T		
W			W	.013	5000	W		
T			T	.013	2000	T	.01	10189
M	.00238	20000	M			M	.002	550
F	.00238	177	F	.013	1500	F		
T	.01988	2615	T	.0145	20000	T		
W	.00219	6403	W	.013	187	W	.002	112
T			T			T		
M	.02488	3118	M			M		

<HELP> for explanation.

EquityHP

Comp/CLOSE/PRICE

Daily Trade

HI .025 ON 2/25/11
AVE .00643 VL 3018
LOW .00119 ON 1/7/11

DATE	PRICE	VOLUME	DATE	PRICE	VOLUME	DATE	PRICE	VOLUME
F								
T								
W								
T	.002	1200						
M								
F	.00119	3000						
T	.01	4675						
W	.01	56224						
T	.007	15000						
M	.002	3000						

<HELP> for explanation.

EquityHP

Comp/CLOSE/PRICE

Daily Trade

HI 11.00 ON 9/ 9/09
 AVE 3.33277 VL 4686
 LOW .002 ON 12/31/10

DATE	PRICE	VOLUME	DATE	PRICE	VOLUME	DATE	PRICE	VOLUME
F	.002	4069	F			F	.011	986
T	.002	6985	T	.006	11311	T		
W	.002	100	W	.01	1565	W	.011	1000
T	.002	36398	T	.01	29085	T	.011	1410
M	.002	10061	M	.011	1670	M		
F			F	.011	774	F	.011	304
T	.005	13824	T	.011	6205	T	.011	100
W			W	.011	2500	W		
T	.005	37674	T	.011	300	T	.011	2457
M	.002	3999	M	.011	1113	M		
F	.005	20000	F			F	.011	34089
T	.006	5500	T			T	.017	7619
W	.006	2000	W			W	.011	1168
T	.006	400	T	.011	1201	T	.011	7050
M	.006	5681	M			M	.011	400

<HELP> for explanation.

Equity**HP**

Comp/CLOSE/PRICE

Daily
Trade

HI 11.00 ON 9/ 9/09
AVE 3.33277 VL 4686
LOW .002 ON 12/31/10

DATE	PRICE	VOLUME	DATE	PRICE	VOLUME	DATE	PRICE	VOLUME
F	.011	500	F	.0215	1600	F	.031	5000
T	.011	5000	T	.0215	8401	T	.031	2964
W			W	.023	1150	W	.037	1500
T	.011	17876	T	.023	26317	T	.031	8044
M			M	.03	375	M	.032	18354
F			F	.03	6395	F	.032	5000
T	.0155	2739	T	.025	2359	T	.032	2857
W			W			W	.032	4119
T	.014	47524	T	.025	7852	T	.032	5087
M			M			M		
F	.025	14006	F	.024	1137	F	.032	2803
T	.049	32250	T	.025	1619	T	.054	9000
W	.033	10000	W			W	.05	22620
T	.0215	800	T	.026	3701	T	.053	2260
M			M			M	.053	5062

<HELP> for explanation.

Equity**HP**

Comp/CLOSE/PRICE

HI 11.00 ON 9/ 9/09
 AVE 3.33277 VL 4686
 LOW .002 ON 12/31/10

Daily Trade

DATE	PRICE	VOLUME	DATE	PRICE	VOLUME	DATE	PRICE	VOLUME
F	.053	2774	F	1.43	2101	F		
T	.08	7141	T			T	1.61	2356
W	.053	5764	W	1.48	875	W		
T	.053	52896	T			T	2.00	924
M	.09	235508	M			M		
F	1.11	3008	F	1.54	356	F		
T	1.11	3041	T	1.54013	938	T		
W	1.15	700	W			W	1.51	1000
T	1.20	500	T	1.54	3850	T		
M			M			M		
F	1.20	700	F	1.53	100	F		
T	1.20	4909	T	1.60	856	T		
W	1.41	1556	W	1.51	100	W	1.51	5900
T			T	1.60	1000	T	2.50	473
M	1.50	1274	M	1.75	500	M	2.70	3266

<HELP> for explanation.

EquityHP

Comp/CLOSE/PRICE

Daily Trade

HI 11.00 ON 9/ 9/09
 AVE 3.33277 VL 4686
 LOW .002 ON 12/31/10

DATE	PRICE	VOLUME	DATE	PRICE	VOLUME	DATE	PRICE	VOLUME
F	2.50	500	F	1.35	7000	F	1.25	4652
T			T	1.30	2935	T		
W	2.25	700	W	1.26	2437	W	1.33	15750
T	2.25	1604	T	1.30	3063	T	1.75	4413
M	2.30	3900	M			M	1.81	1056
F	2.00	387	F	1.30	2893	F	1.81	6471
T	2.00	19421	T	1.50	4500	T	1.90	4000
W			W			W		
T	1.01	4922	T	1.30	1950	T	1.95	928
M	1.11	1600	M	1.31	4671	M	2.01	1472
F	1.25	778	F	1.40	1314	F	2.06	2000
T	1.16	550	T	1.40	2022	T	2.20	9704
W	1.18	883	W	1.26	2287	W	2.11	14685
T	1.21	600	T			T	3.25	2244
M	1.25	4750	M	1.40	600	M		

<HELP> for explanation.

EquityHP

Comp/CLOSE/PRICE

Daily Trade

HI 11.00 ON 9/ 9/09
 AVE 3.33277 VL 4686
 LOW .002 ON 12/31/10

DATE	PRICE	VOLUME	DATE	PRICE	VOLUME	DATE	PRICE	VOLUME
F			F			F	2.15	6400
T	2.65	1684	T			T	2.20	15089
W	2.65	3569	W			W	2.35	4104
T	2.50	500	T	4.50	2259	T	2.75	1500
M			M	4.25	1000	M	2.79	1358
F	2.50	1000	F	4.90	2400	F	2.80	7216
T	2.50	2554	T			T	3.12	12820
W	2.50	12603	W	4.95	24030	W	3.14	8000
T	2.65	2776	T	4.95	20670	T	3.18	14026
M	2.70	13113	M	3.75	33421	M	3.20	6114
F	2.52	30180	F	2.95	15800	F	3.21	5563
T	3.94	2500	T	2.70	9395	T	3.30	28437
W	4.00	7882	W	2.39	8396	W	3.25	6900
T	3.90	2275	T	2.35	3704	T	4.25	7800
M	3.90	2353	M	2.20	8750	M	4.80	72817

<HELP> for explanation.

EquityHP

Comp/CLOSE/PRICE

Daily Trade

HI 11.00 ON 9/ 9/09
 AVE 3.33277 VL 4686
 LOW .002 ON 12/31/10

DATE	PRICE	VOLUME	DATE	PRICE	VOLUME	DATE	PRICE	VOLUME
F			F			F		
T	7.40	1281	T	7.50	2000	T		
W			W	7.50	100	W	7.05	212
T	7.20	1281	T			T		
M			M	7.26	2499	M		
F	7.20	700	F			F		
T	7.25	778	T	7.40	5026	T	7.05	100
W	7.25	2400	W			W	7.05	531
T			T	7.26	1680	T	7.45	351
M	7.15	500	M			M	7.45	350
F			F	7.40	1000	F		
T			T	7.26	1922	T		
W	7.20	2443	W	7.25	800	W		
T	7.49	100	T			T	7.05	7064
M	7.50	2000	M	7.11	300	M	7.05	200

<HELP> for explanation.

EquityHP

Comp/CLOSE/PRICE

Daily Trade HI 11.00 ON 9/ 9/09
 AVE 3.33277 VL 4686
 LOW .002 ON 12/31/10

DATE	PRICE	VOLUME	DATE	PRICE	VOLUME	DATE	PRICE	VOLUME
F	7.40	1500	F	7.25	800	F	8.20	1500
T			T			T		
W			W			W	8.49	4850
T	7.25	1811	T	7.50	1300	T	9.00	1000
M			M			M	8.50	5559
F	7.40	4684	F	7.50	767	F	8.30	753
T			T	7.00	8201	T	8.20	500
W			W	7.75	5736	W	8.20	1003
T			T	8.20	2114	T	8.10	1400
M			M	8.00	308	M	8.10	2224
F	7.50	500	F	8.00	5692	F	8.10	1000
T			T	8.50	3558	T	8.11	881
W			W	8.10	750	W	8.20	1400
T	7.30	500	T	8.10	150	T	8.19	500
M	8.05	600	M			M	8.10	4540

<HELP> for explanation.

Equity**HP**

Comp/CLOSE/PRICE

Daily
Trade

HI 11.00 ON 9/ 9/09
AVE 3.33277 VL 4686
LOW .002 ON 12/31/10

DATE	PRICE	VOLUME	DATE	PRICE	VOLUME	DATE	PRICE	VOLUME
F	8.10	7560	F			F		
T			T	9.25	1339	T		
W	8.25	2249	W			W	11.00	350
T	8.45	350	T	9.15	800			
M	8.65	750	M					
F	8.70	660	F					
T	8.10	2500	T					
W			W	10.00	723			
T	8.25	1222	T	10.00	1275			
M	8.25	1672	M	10.00	342			
F	8.95	250	F					
T			T	10.10	200			
W	8.35	640	W	11.00	500			
T	8.55	5041	T					
M			M					

<HELP> for explanation.

EquityHP

Comp/CLOSE/PRICE

Daily Trade

HI 25.65 ON 5/14/08
AVE 15.58183 VL 668
LOW 9.05 ON 3/10/09

DATE	PRICE	VOLUME	DATE	PRICE	VOLUME	DATE	PRICE	VOLUME
F			F			F		
T			T	12.00	973	T	10.05	1304
W	10.00	723	W	12.00	200	W		
T	10.00	1275	T	12.75	800	T	10.01	200
M	10.00	342	M	9.55	100	M	9.95	2398
F			F			F	9.75	2142
T	10.10	200	T	9.95	1000	T		
W	11.00	500	W	11.00	3769	W		
T			T			T	9.50	300
M			M			M	9.50	6909
F			F			F	10.75	1240
T			T			T		
W	11.00	350	W	9.95	1380	W		
T			T			T	10.75	100
M			M			M	11.20	1257

<HELP> for explanation.

EquityHP

Comp/CLOSE/PRICE

Page 2 / 3
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Daily Trade

HI 25.65 ON 5/14/08
AVE 15.58183 VL 668
LOW 9.05 ON 3/10/09

DATE	PRICE	VOLUME	DATE	PRICE	VOLUME	DATE	PRICE	VOLUME
F			F	12.00	150	F		
T			T			T	11.60	1158
W	10.50	750	W			W		
T			T			T	11.50	1020
M	11.71	981	M			M		
F	11.50	441	F	11.50	500	F	13.00	908
T	10.50	200	T	12.00	300	T		
W	10.50	180	W			W		
T	10.65	2200	T			T		
M	10.50	1200	M			M		
F			F			F		
T	10.25	2104	T	11.85	4636	T		
W			W			W	14.00	585
T			T	11.40	9218	T		
M	11.99	884	M	11.85	1262	M		

<HELP> for explanation.

EquityHP

Comp/CLOSE/PRICE

Daily Trade

HI 25.65 ON 5/14/08
AVE 15.58183 VL 668
LOW 9.05 ON 3/10/09

DATE	PRICE	VOLUME	DATE	PRICE	VOLUME	DATE	PRICE	VOLUME
F	13.70	1168	F	13.49	351	F	13.00	450
T	13.25	691	T	13.49	950	T	13.00	200
W	13.25	102	W	13.49	100	W	13.00	500
T			T			T		
M			M			M		
F	13.49	640	F	13.00	470	F		
T	13.25	531	T			T		
W			W			W		
T	13.49	351	T			T	11.99	3059
M			M			M	11.75	1868
F			F			F		
T	13.49	400	T			T	11.00	500
W			W	13.50	1100	W		
T	12.00	1642	T	15.00	1231	T		
M	13.49	587	M			M	11.00	3826

<HELP> for explanation.

Equity**HP**

Comp/CLOSE/PRICE

Daily
Trade

HI 25.65 ON 5/14/08
AVE 15.58183 VL 668
LOW 9.05 ON 3/10/09

DATE	PRICE	VOLUME	DATE	PRICE	VOLUME	DATE	PRICE	VOLUME
F			F	11.01	1477	F	11.85	400
T	9.50	400	T	10.90	1000	T		
W			W			W	11.00	1377
T	9.05	2238	T	11.00	306	T	11.52	935
M	10.25	700	M			M		
F			F	10.30	3874	F	14.00	500
T			T	11.25	100	T	14.00	452
W	9.99	1271	W	11.25	200	W	13.50	1299
T	10.00	3051	T			T		
M	10.05	200	M	11.25	600	M		
F	10.05	3150	F	11.00	2818	F	14.25	200
T	10.75	500	T	11.25	6006	T	15.00	613
W	10.10	3700	W	11.20	1456	W	15.00	621
T	11.25	1727	T	14.00	800	T	15.50	309
M	11.00	1300	M	11.85	1955	M	14.50	984

<HELP> for explanation.

EquityHP

Comp/CLOSE/PRICE

Daily Trade

HI 25.65 ON 5/14/08
 AVE 15.58183 VL 668
 LOW 9.05 ON 3/10/09

DATE	PRICE	VOLUME	DATE	PRICE	VOLUME	DATE	PRICE	VOLUME
F	13.50	1100	F	15.75	660	F	15.75	200
T			T			T		
W	13.50	1872	W	14.05	100	W		
T	13.41	425	T			T		
M			M			M	15.00	1000
F			F			F		
T			T	15.00	109	T	16.25	340
W	13.10	885	W	15.00	644	W		
T	12.50	5100	T			T		
M	13.50	755	M			M		
F			F			F		
T			T	15.75	115	T	16.95	165
W			W	15.75	200	W	17.75	200
T			T			T		
M	14.50	2138	M	15.75	600	M		

<HELP> for explanation.

Equity**HP**

Comp/CLOSE/PRICE

Daily Trade
 HI 25.65 ON 5/14/08
 AVE 15.58183 VL 668
 LOW 9.05 ON 3/10/09

DATE	PRICE	VOLUME	DATE	PRICE	VOLUME	DATE	PRICE	VOLUME
F			F			F		
T			T	17.25	200	T		
W	17.25	425	W	18.00	1784	W		
T			T	19.10	719	T	19.10	225
M	16.95	274	M	19.20	263	M	19.10	2950
F	17.25	150	F			F		
T			T			T		
W	17.25	200	W	19.10	120	W		
T			T	21.00	165	T	19.99	2866
M	17.25	150	M	22.00	2950	M		
F			F			F		
T			T	22.75	3800	T	20.00	200
W	17.50	650	W			W	20.40	3741
T	18.00	200	T			T		
M	18.00	400	M	21.99	1700	M		

<HELP> for explanation.

Equity**HP**

Comp/CLOSE/PRICE

Daily
Trade

HI 25.65 ON 5/14/08
AVE 15.58183 VL 668
LOW 9.05 ON 3/10/09

DATE	PRICE	VOLUME	DATE	PRICE	VOLUME	DATE	PRICE	VOLUME
F			F	19.60	340	F	20.85	200
T	19.10	539	T	20.50	1633	T	21.00	243
W			W	21.25	2403	W	20.95	420
T	19.95	100	T			T		
M			M	19.60	156	M	20.95	200
F			F			F	20.50	1867
T	19.95	100	T			T	20.40	240
W			W			W	20.50	800
T	20.00	500	T			T	20.70	117
M	20.00	500	M	20.40	1164	M		
F	20.00	150	F			F	21.24	7500
T			T			T		
W	20.00	500	W	20.40	427	W	21.10	3500
T			T	20.40	630	T	21.39	2100
M			M	20.95	4282	M	21.70	600

<HELP> for explanation.

EquityHP

Comp/CLOSE/PRICE

Daily Trade

HI 25.65 ON 5/14/08
AVE 15.58183 VL 668
LOW 9.05 ON 3/10/09

DATE	PRICE	VOLUME	DATE	PRICE	VOLUME	DATE	PRICE	VOLUME
F			F	24.00	100	F		
T	21.70	100	T			T		
W	22.00	18028	W			W		
T			T	24.00	3856	T		
M	22.50	3265	M	23.50	1201	M		
F			F	24.10	100	F		
T			T			T	25.25	1188
W			W	25.00	105	W	25.65	2173
T			T	25.00	350	T		
M	23.00	1890	M	24.40	150	M	25.65	101
F			F			F	25.65	200
T			T			T	25.65	790
W			W			W	25.65	700
T	22.60	685	T			T		
M	23.00	1300	M			M	25.65	432

<HELP> for explanation.

Equity**HP**

Comp/CLOSE/PRICE

Daily
Trade

HI 25.65 ON 5/14/08
AVE 15.58183 VL 668
LOW 9.05 ON 3/10/09

DATE	PRICE	VOLUME	DATE	PRICE	VOLUME	DATE	PRICE	VOLUME
F								
T	25.65	500						

<HELP> for explanation.

Equity**HP**

Comp/CLOSE/PRICE

Daily
Trade

HI 30.95 ON 9/19/07
AVE 27.49696 VL 965
LOW 23.00 ON 3/20/08

DATE	PRICE	VOLUME	DATE	PRICE	VOLUME	DATE	PRICE	VOLUME
F			F			F		
T			T	25.65	500	T	24.25	313
W			W			W	24.25	745
T			T			T		
M			M	25.65	200	M	24.00	212
F			F			F	24.25	1813
T	25.25	1188	T			T		
W	25.65	2173	W	25.00	313	W		
T			T	24.90	105	T	24.00	200
M	25.65	101	M			M	24.00	1700
F	25.65	200	F			F	23.75	1521
T	25.65	790	T			T	23.75	910
W	25.65	700	W	25.70	1624	W	24.00	1890
T			T	25.00	2320	T		
M	25.65	432	M	24.00	157	M	23.75	700

<HELP> for explanation.

EquityHP

Comp/CLOSE/PRICE

Daily Trade

HI 30.95 ON 9/19/07
AVE 27.49696 VL 965
LOW 23.00 ON 3/20/08

DATE	PRICE	VOLUME	DATE	PRICE	VOLUME	DATE	PRICE	VOLUME
F			F	25.50	102	F	26.05	11900
T	23.00	2000	T	25.75	900	T	26.50	600
W	23.00	1196	W			W		
T	23.40	2850	T	25.75	7263	T		
M			M			M	27.25	200
F	23.00	1900	F	25.50	100	F		
T			T			T	27.00	1401
W			W	25.50	523	W	27.50	669
T	24.00	5916	T	25.50	17350	T	27.00	674
M			M			M	26.00	1600
F	23.80	3104	F	25.75	300	F		
T	24.05	3264	T	25.85	3082	T		
W			W	25.90	3957	W	24.00	800
T	25.25	300	T	26.00	11000	T		
M	25.25	501	M	26.00	1465	M		

<HELP> for explanation.

Equity**HP**

Comp/CLOSE/PRICE

Daily
Trade

HI 30.95 ON 9/19/07
 AVE 27.49696 VL 965
 LOW 23.00 ON 3/20/08

DATE	PRICE	VOLUME	DATE	PRICE	VOLUME	DATE	PRICE	VOLUME
F	25.00	990	F			F	26.56	300
T	23.50	400	T			T		
W			W			W		
T	23.50	400	T			T	25.85	335
M			M	25.15	135	M		
F			F	25.80	1015	F	25.85	1079
T	23.60	1930	T			T		
W	25.25	2100	W	26.05	139	W		
T			T	26.05	300	T	27.25	200
M			M			M	26.25	1050
F			F			F		
T			T	27.00	242	T		
W			W			W		
T			T	26.00	200	T	27.00	525
M	25.15	500	M			M		

<HELP> for explanation.

EquityHP

Comp/CLOSE/PRICE

Daily Trade

HI 30.95 ON 9/19/07
 AVE 27.49696 VL 965
 LOW 23.00 ON 3/20/08

DATE	PRICE	VOLUME	DATE	PRICE	VOLUME	DATE	PRICE	VOLUME
F			F			F		
T			T			T	29.50	100
W			W	27.01	1347	W	29.50	1100
T	26.50	5375	T	26.50	1175	T	29.56	574
M			M			M	29.55	100
F	27.00	1050	F	28.00	1600	F		
T	26.75	600	T	28.10	2465	T		
W			W	29.68	1625	W		
T			T	29.50	1400	T	30.25	1301
M	26.25	412	M	30.00	640	M	30.00	500
F			F	29.65	4689	F		
T			T	29.65	100	T		
W	27.00	4600	W			W	30.95	200
T	27.00	1075	T			T		
M			M			M	30.95	300

<HELP> for explanation.

EquityHP

Comp/CLOSE/PRICE

Daily Trade

HI 30.95 ON 9/19/07
 AVE 27.49696 VL 965
 LOW 23.00 ON 3/20/08

DATE	PRICE	VOLUME	DATE	PRICE	VOLUME	DATE	PRICE	VOLUME
F	30.00	4916	F	29.75	100	F	28.50	2670
T	30.00	7400	T	28.25	1506	T		
W			W			W	27.50	391
T			T	28.00	1000	T	28.00	775
M			M	28.00	400	M		
F	29.75	2100	F	28.40	8332	F	27.90	1400
T	29.25	7348	T	27.00	592	T	27.30	2349
W	29.25	1308	W			W	28.25	2250
T	29.25	500	T	26.00	1892	T	29.20	200
M			M			M	29.60	601
F	30.00	100	F	27.95	500	F	28.80	200
T	29.25	200	T	27.99	177	T		
W			W			W	29.00	1074
T	29.25	514	T			T	28.80	1382
M	29.50	2600	M	26.75	600	M		

<HELP> for explanation.

EquityHP

Comp/CLOSE/PRICE

Daily Trade

HI 30.95 ON 9/19/07
 AVE 27.49696 VL 965
 LOW 23.00 ON 3/20/08

DATE	PRICE	VOLUME	DATE	PRICE	VOLUME	DATE	PRICE	VOLUME
F	29.50	5750	F			F	28.80	3238
T			T	28.55	500	T		
W			W			W		
T	28.55	2505	T	28.52	200	T	29.45	1800
M			M	28.85	2936	M		
F	28.90	435	F			F	28.75	100
T	28.50	200	T			T		
W			W	28.40	621	W		
T			T			T	28.75	450
M			M	28.55	805	M		
F			F	28.35	8783	F	28.90	400
T			T			T	28.90	820
W	28.50	600	W	29.25	220	W	28.90	500
T			T			T		
M			M	29.45	1000	M	29.25	4000

<HELP> for explanation.

Equity**HP**

Comp/CLOSE/PRICE

Daily
Trade

HI 30.95 ON 9/19/07
AVE 27.49696 VL 965
LOW 23.00 ON 3/20/08

DATE	PRICE	VOLUME	DATE	PRICE	VOLUME	DATE	PRICE	VOLUME
F	28.90	2189	F	29.25	300	F	29.25	2900
T			T			T	29.00	100
W			W	28.90	7478	W		
T	29.00	300	T	28.85	774	T		
M			M	28.85	220	M	28.25	773
F			F	28.85	4552	F		
T	29.50	300	T	29.50	300	T		
W	28.95	1000	W	28.85	2475	W	28.20	400
T	29.00	200	T	28.55	1900	T		
M			M	28.75	2100	M		
F			F			F	28.30	100
T	29.25	4465	T			T	28.80	350
W	28.90	6863	W	28.85	1300	W	28.50	608
T	29.00	1115	T	29.00	750	T		
M			M			M		

<HELP> for explanation.

EquityHP

Comp/CLOSE/PRICE

Daily Trade

HI 30.95 ON 9/19/07
 AVE 27.49696 VL 965
 LOW 23.00 ON 3/20/08

DATE	PRICE	VOLUME	DATE	PRICE	VOLUME	DATE	PRICE	VOLUME
F	28.80	1863	F	29.50	2600	F	28.00	600
T	29.50	350	T	28.50	1000	T	28.16	1200
W	28.80	189	W	28.85	800	W	28.00	100
T	28.80	10233	T	28.50	895	T	28.00	500
M			M			M	28.00	1758
F			F	28.50	6090	F		
T	29.00	500	T	28.05	2600	T	28.75	235
W	29.00	137	W	28.00	2975	W	28.05	410
T	29.50	600	T	28.25	958	T	28.40	1012
M	28.75	1964	M			M		
F	29.50	3700	F			F	28.65	2072
T			T	28.30	641	T	28.25	371
W	29.00	200	W			W		
T	29.00	1237	T			T		
M			M			M	27.75	1632

<HELP> for explanation.

EquityHP

Comp/CLOSE/PRICE

HI 30.95 ON 9/19/07
AVE 27.49696 VL 965
LOW 23.00 ON 3/20/08

Daily
Trade

DATE	PRICE	VOLUME	DATE	PRICE	VOLUME	DATE	PRICE	VOLUME
F	28.25	300						
T								
W	28.25	1206						

Exhibit 3



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August 22, 2010 Sunday

SECTION: BUSINESS AND FINANCIAL NEWS

ACC-NO: 20100822-UR-Pain-of-bank-seizure-ripples-through-Sonoma-Valley-20100822

LENGTH: 1024 words

HEADLINE: Pain of bank seizure ripples through Sonoma Valley

BYLINE: Kevin McCallum, The Press Democrat, Santa Rosa, Calif.

BODY:

Aug. 22--The three branches of Sonoma Valley Bank, seized by regulators Friday evening, reopened Saturday morning as branches of Westamerica Bank, a reassuring transition for the bank's customers but a devastating one for its hundreds of investors.

Beginning at 9 a.m., customers entering branches in Sonoma, Boyes Hot Springs and Glen Ellen walked beneath new banners installed overnight reading "Sonoma Valley Bank is now part of Westamerica Bank" before being warmly greeted by long-time tellers offering them plates of cookies.

Glen Ellen resident Pam Wagner said a teller she's known for years greeted her as usual Saturday morning and reassured her that everything would be fine. Wagner came away unconvinced.

"It's very sad to see that a big bank is taking over a little bank," said Wagner, whose veterinary business has accounts with the bank. "It just makes me feel sick."

As an owner of a small business owner, she said the seizure fills her with dread that the longer the recession drags on the harder it is becoming for smaller businesses to survive against better capitalized rivals.

"We're all a little scared and a bit fragile," she said.

San Rafael-based Westamerica Bank purchased all the deposits and most of the assets of Sonoma Valley Bank in a deal brokered by the Federal Deposit Insurance Corporation. The bank had been given until Aug. 15 to raise \$20 million but failed to meet the deadline.

News of the first Sonoma County bank to collapse since the economic downturn began in 2008 hit around 6 p.m. Friday.

Employees were informed during a companywide meeting hastily called by bank President Sean Cutting Friday evening. Dozens of regulators and Westamerica Bank employees then descended on the bank to secure its assets, begin transitioning the bank to Westamerica ownership, and prepare to quickly reopen the branches.

Robert Thorson, chief financial officer of the San Rafael-based Westamerica Bank, confirmed reports that employees were distraught by the news.

Pain of bank seizure ripples through Sonoma Valley The Press Democrat, Santa Rosa, Calif. August 22, 2010 Sunday

"Of course it was emotional. It's always going to be a difficult situation with something like that," Thorson said.

How the employees will be affected remains unclear. No decisions have been made about staffing levels, but Thorson said the bank was "looking for a high level of retention."

As tough as that uncertainly has been on the employees, investors are the ones bearing the brunt of the bank's demise.

From its founding in 1988, Sonoma Valley Bank was envisioned as one that would be owned by a wide spectrum of the community. The bank encouraged people to become "charter shareholders" with promotions to get free checking accounts when they spent \$100 on 10 shares of stock, said Gina Cuclis of Sonoma.

"It almost feels like the death of a friend," she said.

Cuclis, who owns a public relations firm, and her husband liked the idea of joining "a local bank started by local people" and over the years increased their investment.

Several years ago they put \$5,000 in Sonoma Valley Bank stock into each of their twin daughter's college funds, she said. The girls are now 17, just on the verge of needing the money, and the stock is worthless, Cuclis said.

"But there's a lot of people in this town that had a whole lot more money invested in this than us," she said.

Mel Switzer, Jr. who retired as CEO in 2009 but remained the chairman of the board of directors, said "there are well over 1,000 outside shareholders that have been impacted by this, and we're just devastated for them."

There were 2.2 million shares of common stock outstanding as of May 5, 21.5 percent of it owned by boardmembers and executives, according to bank filings. At a closing price of \$1.11 Friday, that means \$2.5 million in value was wiped out Friday.

But that's a pittance when compared to what's been lost since the stock's high of \$31 in October of 2007. Since then \$69 million in value has vaporized.

It didn't have to happen, Switzer said.

The bank was doing a good job of righting the ship, just not quickly enough to satisfy regulators, he said. It was unrealistic that the bank could raise \$20 million between March and Aug. 15 in the current economic climate, Switzer said.

"We had lots and lots of interest. We just needed more time," he said.

Much like the Exchange Bank in Santa Rosa, which faced big losses when it expanded beyond Sonoma County to follow the housing boom into the Central Valley, Sonoma Valley Bank in recent years had made bigger commercial loans outside of the valley.

According to former board member Gerald "Jerry" Marino, one deal involved an \$11 million loan to develop a self-storage facility south of Santa Rosa. The bank was forced to foreclosure and the losses were steep, Marino said.

Marino, who said he owns about 80,000 shares in the bank's holding company, Sonoma Valley Bancorp, described himself as a "thorn in the side" of the bank executives for years. Bank leaders set up performance bonuses for executives and other policies that enriched themselves at the expense of shareholders, he said.

While regulators have been hard on the bank in forcing it to revalue its assets, he blames its leaders for making unwise loans to developers with whom the bank had little history.

"They're blaming the FDIC but I blame the loan committee because the buck stops there," Marino said.

Cutting, who grew up in Sonoma and started at the bank as a loan officer in 2002, became chief executive of Sonoma Valley Bank in 2009, replacing longtime CEO Switzer. He could not be reached for comment.

Switzer maintained the bank was on the mend and had a plan in place, but just needed some flexibility from regulators.

"It's just tragic. Our board just doesn't feel this was necessary at all," he said.

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Pain of bank seizure ripples through Sonoma Valley The Press Democrat, Santa Rosa, Calif. August 22, 2010 Sunday

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LOAD-DATE: August 22, 2010

Exhibit 4



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July 24, 2011 Sunday

SECTION: STATE AND REGIONAL NEWS

ACC-NO: 20110724-UR-Feds-investigate-lending-by-failed-Sonoma-bank-0724-20110724

LENGTH: 2370 words

HEADLINE: Feds investigate lending by failed Sonoma bank

BYLINE: Nathan Halverson, The Press Democrat, Santa Rosa, Calif.

BODY:

July 24--A federal grand jury is sifting through the collapse of Sonoma Valley Bank and its use of taxpayer bailout money, part of a criminal probe examining loans the bank made to one of its largest borrowers.

The bank, which imploded 11 months ago amid overwhelming loan losses, was only the fifth bank in the nation to fail after receiving an infusion of money through the federal bank bailout program.

A government agency created by Congress to examine misuse of bailout money has interviewed at least a half-dozen former bank employees. Most of the questions have focused on Marin County developer Bijan Madjlessi and his relationship with the bank and its senior management, said a former bank employee, who spoke on condition of anonymity.

The far-reaching criminal investigation, which includes agents from the FBI and Internal Revenue Service, is also exploring personal financial ties between Madjlessi's wife and one of the bank's loan officers, according to sources close to the case.

The full extent of the probe remains closely guarded while investigators work with the U.S. Attorney's Office to present evidence to a grand jury that has been meeting in U.S. District Court in San Francisco.

The grand jury ultimately will decide whether anyone should be indicted on criminal charges. No criminal charges have been filed.

The bank repeatedly broke standard lending rules in its dealings with Madjlessi, his companies, his employees and his business associates, The Press Democrat discovered in public records, private documents and interviews with dozens of former employees, borrowers, investors, analysts and other banking executives.

"There is no question there was a violation of standard bank lending practices," said Fred Ptucha, a local banking analyst with Financial West Group in Santa Rosa. "Whether they broke any laws, well, that remains to be seen."

Loans to Madjlessi were arranged by a bank officer who had a personal financial relationship with the developer's wife, according to documents obtained by The Press Democrat.

Feds investigate lending by failed Sonoma bank The Press Democrat, Santa Rosa, Calif. July 24, 2011 Sunday

Brian Melland, who helped arrange more than \$40 million in loans for Madjlessi and his business partners, solicited and accepted startup money from people associated with the developers in order to fund his fledgling energy drink company, according to a copy of an investment agreement.

Melland's wife alleged in January that her husband was under investigation as part of an FBI probe into bank fraud, according to divorce papers she filed in Sonoma County Superior Court.

Melland, who now works for Sonoma Bank in Santa Rosa, declined to comment on the investigation.

Madjlessi referred questions to his attorney, David Lonich. Lonich said his client had done nothing illegal.

Last year, when regulators suddenly locked the doors on Aug. 20 at the close of the banking day, Sonoma Valley Bank became the only Sonoma County bank to collapse since the economic downturn began toppling financial institutions across the country in 2008. Its three branches and most of its assets were purchased by San Rafael-based Westamerica Bank.

Former Sonoma Valley president Sean Cutting, who is now senior relationship manager at Rabobank in Sonoma, and other former executives and directors of the shuttered bank declined to comment.

But shortly after its closure, Cutting issued a public statement signed by bank directors blaming the sharp real estate downturn for their troubled loans. They said overly aggressive regulators shut down a stable, profitable bank that had earned a reputation over two decades of being "one of the most generous, helpful, caring and supportive institutions in town."

Loans to Madjlessi

A major factor in the bank's demise was the role of Madjlessi and his business partners, who had defaulted on at least \$34 million in loans -- equivalent to about 14 percent of the total money deposited at the small community bank.

The loans were made for three Sonoma County projects -- a condominium development in west Santa Rosa, a condo-conversion project at an apartment complex in Petaluma and a self-storage facility in south Santa Rosa.

If not for those failed loans to Madjlessi and his associates, the bank could have survived, Ptucha said.

"It would have suffered like all banks suffered, but the bank would still be here," he said. "But they loaned him too much money."

When Madjlessi and his business partners began defaulting on the loans in the spring of 2008, the bank granted them extensions and even loaned Madjlessi additional money.

"That in and of itself is a problem," said Ann Fulmer, a former white-collar crime prosecutor and a bank fraud expert in Southern California. "It gave the appearance that these troubled loans were performing better than they were."

In late June, several people tied to Madjlessi received subpoenas to testify or provide documents to the grand jury, according to court records. Madjlessi was identified as a target of the grand jury investigation in the same records, which were filed in a civil lawsuit in Marin County.

Won't testify in case

Madjlessi has decided not to testify in the Marin County lawsuit because "given the subject matter of the investigation, the risk of self-incrimination is readily apparent," according to a document filed by Madjlessi's attorney in the case.

"That is what the Fifth Amendment provides him," Lonich said. "That does not indicate any culpability at all."

Subpoenas for the grand jury are being administered by the Special Inspector General for the Troubled Asset Relief Program. The program, known as TARP, was created in 2008 to stabilize the U.S. financial system by shoring up struggling banks with taxpayer money. Sonoma Valley Bank received \$8.7 million through the program in February 2009.

The agency investigates allegations of waste, theft and abuse of TARP money, according to its website.

The grand jury also appears to be looking at loans Madjlessi received from other banks, according to both public and private documents obtained by The Press Democrat.

Assistant U.S. Attorney Jeffrey Finigan, who signed the grand jury subpoenas, declined comment.

Feds investigate lending by failed Sonoma bank The Press Democrat, Santa Rosa, Calif. July 24, 2011 Sunday

Former Sonoma Valley Bank shareholders, who lost everything when it closed, also filed a class-action lawsuit last month blaming Cutting and other bank management for failing to appropriately manage lending -- particularly with regards to Madjlessi.

The Federal Deposit Insurance Corporation, which is hoping to recover some of the estimated \$14 million it lost in the bank's collapse, continues to investigate the failure as it decides whether to file a civil lawsuit against bank executives for negligence.

Now federal investigators are sifting through the wreckage left by the bank's collapse to see if there is evidence of bank fraud or other criminal activity.

Relationship under scrutiny

Federal criminal investigators are examining the financial relationship between Melland and Madjlessi's wife with particular interest in the timing of their private deals, according to sources close to the case.

Melland co-owned a company, Magnus Innovations Group, that had created a line of energy drinks targeting Spanish speakers. In one instance, the loan officer's startup company received money from Madjlessi's wife only days before he arranged a new loan for her husband.

On April 1, 2008, his company received a \$50,000 investment from Biganeh Madjlessi, the wife of Bijan Madjlessi, according to a copy of the investment agreement obtained by The Press Democrat.

That same week in 2008, Sonoma Valley Bank made \$3.7 million in loans to one of Bijan Madjlessi's companies involved in the condo-conversion project in Petaluma, according to county land records. Melland helped arrange the loans, part of \$11.1 million in loans made during a five-month period for the Petaluma project.

Those loans eventually went into default in 2010, and the Petaluma apartment buildings used as collateral were recently valued at only 22 percent of the outstanding loan amount, according to court records.

Lawyer: No conflict

Lonich said Biganeh Madjlessi did nothing wrong by investing in Melland's company. The investment did not create a conflict of interest because she was not involved in the loans from Sonoma Valley Bank, Lonich said.

Lonich, in an email Saturday, also said that Sonoma Valley Bank was aware of her purchase of stock in the drink company on or about the time she made it and had determined it did not violate bank policy.

According to the 2008 investment agreement, by the times the bank loans were made, Biganeh Madjlessi and a business partner of her husband had invested \$250,000 in Melland's company.

For a loan officer to intermingle personal and bank business is "absolutely unacceptable," said one local bank president, who had no direct knowledge of the situation and asked to remain anonymous given the ongoing federal investigation.

Another North Bay bank president said, "No way. You are not going to solicit our customers for your own business. It's a conflict of interest."

Melland's company eventually failed, said Brion Norby, a Williston, N.D., resident who invested money in the company.

Another investor identified in the defunct company's records was Glenn Larsen, a longtime business partner of Bijan Madjlessi.

Larsen said he never invested in Melland's company, but acknowledged the loan officer had discussed the venture with him.

"I heard about it from Brian Melland," Larsen said. "He mentioned that he was doing it, and asked if I knew anyone who was interested in investing."

Larsen said he did not know why he was identified as an investor on documents that sources said both Melland and Madjlessi had distributed.

"Preferential treatment"

Feds investigate lending by failed Sonoma bank The Press Democrat, Santa Rosa, Calif. July 24, 2011 Sunday

Larsen, a private lender from Marin County, said he and Madjlessi have teamed up on several development projects in the North Bay.

But when one of their projects collapsed in late 2009 and Sonoma Valley Bank sued Larsen to collect its money, Larsen filed a countersuit alleging the bank had negligently provided Madjlessi "preferential treatment."

The countersuit, which Larsen dropped last week, alleged bank management allowed Madjlessi to divert \$3 million in loan funds for "his own personal use."

Larsen and Madjlessi had owned a self-storage project in Santa Rosa that received a \$10.7 million loan from Sonoma Valley Bank in 2006.

His lawsuit alleged bank representatives removed Madjlessi as a co-borrower on the loan in 2007, relieving him of responsibility to repay the loan. The action, Larsen alleged, was designed to circumvent federal lending limits and enable the bank to make additional loans to Madjlessi so bankers could enrich themselves by charging "more points and fees" on the new loans.

Melland was a loan officer on the deal, according to the lawsuit filed in Sonoma County Superior Court.

Lonich denied Larsen's allegations.

"It's false," he said. "There was never any diversion of any funds."

Larsen, who defaulted on the outstanding loan balance of \$11 million in late 2009, sued the bank to erase the debt or reinstate Madjlessi as a co-guarantor of the loan, meaning they both would be on the hook for repaying it.

Larsen dropped the lawsuit Thursday after being contacted by The Press Democrat. He declined to discuss the lawsuit, or why he thought the bank provided Madjlessi preferential treatment.

Favorable loan terms

Madjlessi's business partners and employees received loans from Sonoma Valley Bank under apparently favorable terms that several senior executives at other local banks described as imprudent and risky.

For instance, in early 2009, the bank made a \$5.5 million unsecured loan to one of Madjlessi's business associates, James House -- a loan that Madjlessi had helped arrange.

At that time, near the peak of the financial crisis when the economy ground to a halt because banks were not lending, it was highly unusual to receive a loan without providing some form of collateral such as a real estate deed.

Yet Sonoma Valley Bank did not record any security from House until 11 months after making the loan, and during that time it loaned him an additional \$4 million, according to public records. It eventually recorded collateral on the combined \$9.5 million loan with the Sonoma County Recorder's Office in early 2010.

"That is odd," said a local bank president. "That is not the prudent way."

House, a Southern California construction contractor, was subpoenaed by the federal grand jury in San Francisco, according to court records filed in Marin County Superior Court in late June. He could not be reached for comment.

Lonich, who represented House at the time, denied the loan was unsecured, and said the bank had simply decided to record its collateral at a later date.

However, waiting to record collateral is dangerous, Fulmer said.

"Someone else could have come in and filed a lien, and the bank's lien would no longer have first priority with regards to being repaid," she said. "It is highly unusual for a bank to delay recording a security instrument."

In another case in 2009, the bank approved a \$436,500 home loan for one of Madjlessi's employees who had just defaulted on another real estate loan.

Jennifer Irvine, who worked for Madjlessi at his condo development in west Santa Rosa, received a loan to purchase one of the units on Sebastopol Road just two months after she lost her Cloverdale home to foreclosure for defaulting on a \$600,000 loan. The loan from Sonoma Valley Bank has not fallen into default, according to public records.

Criminal investigators are now focused on sifting through loan deals tied to Madjlessi to determine which should be presented to the grand jury, according to sources.

Feds investigate lending by failed Sonoma bank The Press Democrat, Santa Rosa, Calif. July 24, 2011 Sunday

Regulators have shuttered more than 375 banks across the country since the U.S. financial system began to buckle in mid 2008. Sonoma Valley Bank is one of the few to come under criminal investigation, experts said.

"There are an alarming number of red flags here," Fulmer said.

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Exhibit 5

North Bay Business Journal — <http://www.northbaybusinessjournal.com>

Commentary: Sonoma Valley Bank directors devastated by FDIC seizure

Joann DiNova

Saturday, September 11, 2010, 3:03 pm

Categories: [Commentary](#), [Guest Columnists](#) | [No Comments](#)

On Aug. 20, Sonoma lost one of its leading community members – Sonoma Valley Bank. It was 22 years old and far too young for its untimely and unnecessary demise. It carried the reputation of being one of the most generous, helpful, caring and supportive institutions in town.

The employees, management and we, the board, were in shock as the FDIC arrived as receivers on that Friday at 6 pm. The executive team and the board had been working for eight months to raise the needed capital and were weeks away from consummating an agreement with an investor. We requested a delay from the Department of Financial Institutions, which was in control, but it chose instead to move forward with closure.

The bank demonstrated that it was stable with good liquidity. It had strong assets, showed a profit in the second quarter of 2010 and was continuing to bolster needed capital ratios. The reserve was healthy and the problem loans (which echoed the real estate collapse in our country) were being addressed. By the end of the fourth quarter we believe we would have satisfied the DFI requirements.

One of the leading attorneys in America's banking industry who reviewed the consent order, our financials and the requests of the FDIC stated: "Never in the history of banking, to my knowledge, has a bank with the capital ratios of Sonoma Valley Bank and with the trends of the bank, been closed by its primary regulator."

The executive team, our employees and the board of directors of Sonoma Valley Bank are devastated with the decision of closure. Our pain for the community, its shareholders and its customers is immeasurable. We all lost a great friend, a generous provider, a caring lender and a leader in both the banking world and Sonoma community. Unfortunately, all of us who held stock in the bank lost the value of that investment on Aug. 20. For that, the board of Sonoma Valley Bank is overwhelmingly sorry for the outcome. It is devastating to each and every one of us, and we feel the pain, as you may, and a numbness that is pervasive.

There's now a new name on our building, and all our employees and the new owner are working hard to make the transition as smooth as possible. It doesn't replace the giant loss however, as we all try to understand the regulator's reasoning and absorb the process.

...

Sean Cutting was president and CEO of Sonoma Valley Bank. The article also was signed by Mel Switzer, former president and CEO; board Chair Suzanne Brangham; and directors Dale Downing, Bob Hitchcock, Bob Nicholas, Steve Page, Valerie Pistole and Angelo Sangiacomo.

Link to article: <http://www.northbaybusinessjournal.com/24843/commentary-sonoma-valley-bank-directors-devastated-by-fdic-seizure/>

Exhibit 6



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January 23, 2011 Sunday

SECTION: STATE AND REGIONAL NEWS

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LENGTH: 2825 words

HEADLINE: Sonoma Valley Bank's downfall

BYLINE: Nathan Halverson, The Press Democrat, Santa Rosa, Calif.

BODY:

Jan. 23--The collapse of Sonoma Valley Bank is now under federal investigation amid allegations of fraud, negligence and loose lending practices.

A wide range of federal agencies, including the Federal Bureau of Investigation, the Internal Revenue Service and the Treasury Department, are jointly investigating the bank and its loans, according to sources.

Regulators seized the community bank in August, eight months after discovering bank officials had provided financial statements that did not disclose nearly \$15 million in bad loans.

At the center of the bank's downfall is a series of large loans made to a small group of North Bay developers who were behind three Sonoma County projects that fell into foreclosure over the past few years.

The bank continued to fund the projects even after it became public in land records and lawsuits that the developers were defaulting on multimillion-dollar loans from other banks and were not paying construction contractors.

Regulators seized the bank and its three branches in the Sonoma Valley because not enough money had been reserved to weather the recession, making it the only Sonoma County financial institution to fail during the extended economic slump.

Some of the bank's major shareholders are now accusing bank executives of funding deals to enrich themselves through a bonus plan that rewarded risky lending, but proved disastrous to the bank's financial health.

"Greed got into it. They wanted to get their bonuses by making loans," said Gerald "Jerry" Marino, who owns about 80,000 shares of the bank's holding company that are now worthless, but that once were worth around \$3 million.

The bank's former president, Sean Cutting, declined comment. Its former chief executive officer, Mel Switzer Jr., did not return repeated calls seeking comment.

At the time of the seizure, the bank's top leaders, including Cutting and Switzer, issued a public statement blaming the sharp real estate downturn for their troubled loans. They said the bank had been profitable in its most recent quarter and would have returned to financial health.

The collapse of Sonoma Valley Bank, and the projects it funded, has left a wake of financial devastation in the North Bay, ranging from dozens of building contractors stuck with unpaid bills to the bank's roughly 1,000 local shareholders who watched the bank's total stock value of \$71 million evaporate in less than three years.

A risky concentration

In December 2008, the bank loaned Marin County developer Bijan Madjlessi \$9.2 million for a combination retail and residential project in west Santa Rosa. Seven months earlier, he had defaulted on a \$31 million loan from IndyMac Bank for the same development.

When it made the loan, Sonoma Valley Bank already had been sued by contractors who claimed Madjlessi was not paying his bills for construction of the mixed-use project, Park Lane Villas on Sebastopol Road.

Madjlessi eventually defaulted on the \$9.2 million loan, in addition to another \$24 million that Sonoma Valley Bank had earlier loaned him, according to county land records.

The bank would have needed back only half of the \$33 million it loaned to Madjlessi to remain open, according to the capital requirements demanded by regulators in the months before they seized it.

"If they would have loaned him \$15 million less, they would have survived the trauma," said Ralph Hutchinson of Sonoma, a former federal bank regulator and critic of the bank's lending practices.

"They were too concentrated, and had too many eggs in one basket," Hutchinson said. "Otherwise they could have saved the bank."

Big borrowers

Madjlessi and two of his business partners, Glenn Larsen and James House, received a total of \$54.5 million in loans from Sonoma Valley Bank for three Sonoma County projects, according to county land records. They have defaulted on \$45 million of those loans.

Lenders seeking to recover loan losses have filed lawsuits in Marin and Sonoma counties against Madjlessi's numerous companies.

David Lonich, Madjlessi's attorney, said his client is one of many developers brought down by the severe recession.

"I don't need to defend Bijan. He didn't do anything wrong," Lonich said. "The economy failed. That's what happened."

Madjlessi did not return calls seeking comment.

Chad Empey, a Petaluma glass contractor who had been a close associate of Madjlessi's since the early 1990s, was a plaintiff in a lawsuit last year that attempted to force Madjlessi into bankruptcy, a process known as an involuntary bankruptcy. Empey said Madjlessi still owes him \$200,000.

He testified that Madjlessi had intentionally set out to defraud the banks. He claimed Madjlessi purchased several condos in Empey's name so that he could show banks he had sold enough units to qualify for additional construction loans.

Empey said that he ended up with at least two condos at Park Lane Villas as a result. He also testified that Madjlessi has rented out the units and is collecting the rent.

However, in bankruptcy court documents, Madjlessi said that Empey willingly purchased the condos, and any disagreement about the issue had been resolved in a settlement agreement. Further, Madjlessi claimed he did not personally owe the money to Empey, but that his companies did.

Both sides agreed to dismiss the involuntary bankruptcy case because they disputed how much money was owed, said Doug Provencher, a Santa Rosa bankruptcy attorney who represented the plaintiffs, including Empey and Steve Scarpa, a Marin County real estate investor.

Empey said he is now cooperating with the FBI, IRS and other federal regulators who he said are investigating Madjlessi.

Failed projects

Westamerica Bank, which took over Sonoma Valley Bank after acquiring most of its assets from the federal government in August, is now in the process of seizing its share of Park Lane Villas on Sebastopol Road and has scheduled a foreclosure auction for Thursday.

In December, it foreclosed on a Santa Rosa storage facility, Sonoma Storage Emporium on Santa Rosa Avenue, to recover \$11.1 million in unpaid debts. Sonoma Valley Bank had loaned Madjlessi and his Marin County business partner Larsen \$10.7 million for the project in 2006.

The third project, Petaluma Greenbriar Apartments, a failed condo conversion in Petaluma that was spearheaded by Madjlessi, is in various stages of foreclosure.

The apartment complex was built in the 1970s, and Madjlessi had filed plans to convert the buildings into privately owned condos. But virtually no improvements were made to the complex during the time Madjlessi received tens of millions of dollars in loans for it, according to residents.

Madjlessi's attorney said the loans were used to pay off previous loans that were already associated with the complex when Madjlessi purchased it in 2000.

Westamerica Bank has scheduled a foreclosure date of Feb. 14 for unpaid loans totalling \$11.7 million made by Sonoma Valley Bank.

Another lender owed \$34 million has scheduled its own foreclosure auction, while another owed \$6.6 million already has foreclosed on some of the buildings.

Federal investigation

Federal investigators have launched a widespread probe of the bank and its practices, according to former bank employees and people close to the investigation.

Officials are investigating allegations of fraud, Securities and Exchange Commission violations, regulatory violations and negligence at the bank, according to Teresa Anaya, a senior investigator working on the case.

Anaya, who works for the U.S. Federal Deposit Insurance Corporation, posted details of the investigation on her profile page for a professional social-networking site.

She wrote that she is helping coordinate the Sonoma Valley Bank investigation with a wide variety of agencies, including the FDIC's Professional Liability Group that targets real estate professionals for shoddy appraisal work, the Special Inspector General for the Troubled Asset Relief Program that investigates misuse of bailout money, the IRS and the FBI.

Messages left on her cell phone were returned by Greg Hernandez, spokesman for the FDIC, who would neither confirm nor deny the investigation.

Overzealous regulators?

In the initial wake of the bank's closure on Aug. 20, executives and board members expressed shock and dismay that regulators had not given their small community bank more time.

They submitted an opinion piece published in local newspapers, signed by Cutting, Switzer and seven other board members, criticizing regulators for shutting down the bank.

"It was 22 years old and far too young for its untimely and unnecessary demise," they wrote.

Bob Nicholas, chairman of the bank's board, still blames overzealous regulators, whom he referred to as "the forces of evil," in an interview last week.

Nicholas said the bank's lending practices were sound.

Nicholas disputed that the bank had loaned too much money to Madjlessi and said the Marin County developer was not involved in the west Santa Rosa development.

"Village Square was somebody else," he said.

County records show that Madjlessi signed for all three loans totaling \$21.5 million received by 132 Village Square, a development company registered in the developer's name, according to the secretary of state.

"I did not know that," Nicholas said.

He referred additional questions to Cutting.

Initial signs of trouble

In December 2009, six months after receiving nearly \$9 million in federal bailout money, Sonoma Valley Bank appeared to be relatively healthy. It reported a \$495,180 loss in the third quarter, a relatively small loss at a time when the banking world seemed to be melting down.

Late that month, regulators began looking into the bank's \$352 million in assets during a routine visit.

By February 2010, regulators had forced the bank to disclose that it was dangerously undercapitalized and needed to restate its third-quarter earnings report.

The bank increased its reported losses for the quarter to \$19 million -- up from \$495,180 -- and disclosed that it could not collect on about \$15 million in loans.

With that action, the bank erased about \$18 million of its equity, dropping its capital levels below federally required levels. That set the stage for its eventual closure six months later when the bank was unable to raise additional money and meet safety thresholds set by regulators.

Sonoma Valley Bank is among 300 banks nationwide that have closed since 2009.

Executive bonuses

The failed bank has come under fire for its executive compensation.

Jerry Marino, who was a founding director, and Gary Nelson, another former board member and founder of one of the largest temporary staffing companies in the country, were removed from the board after expressing concern about executive pay, Marino said. They both felt executives were placing their bonuses above the interests of shareholders.

Marino said in an interview that he pushed to have then-CEO Switzer removed from the board because he felt executive compensation had become too large and was resulting in risky lending.

Nelson, who has extensive expertise in employee compensation, was removed from the board's personnel and policies committee after repeatedly expressing concerns about the executive compensation plan. He backed Marino's call to have Switzer removed from the board.

"When they kicked us off, I should have sold my shares," Marino said.

Marino said he and other shareholders are waiting for the government to issue a report to determine if they are going to sue any former bank executives or board members, who are covered by an insurance policy of about \$20 million.

The bank eventually did eliminate its cash bonus program after increased scrutiny from regulators.

After the bank accepted TARP money in March 2009, it was required to review its compensation plan for senior executives to ensure bonuses did not encourage "unnecessary and excessive risks." Board members determined the plan was safe.

But three months later, the bank reversed that decision. It did not publicly announce it had eliminated part of its compensation plan until May 2010, when it acknowledged in its proxy statement that it had ceased the "Cash Incentive Plan because the Committee believed it may encourage unnecessary and excessive risk taking."

The plan had provided financial incentives to executives based on annual profits, and provided additional incentives every time annual profits exceeded the previous year. The bulk of a bank's profits are derived from its loans, meaning that approving more loans can increase earnings.

Defaulted SR project

Sonoma Valley Bank executives loaned money for Park Lane Villas shortly after receiving federal money from the Troubled Asset Relief Program.

The mixed-used project, which was completed in 2007, has 228 units in six buildings with storefronts on the street level and condominiums on the second and third floors.

After federal regulators closed IndyMac Bank in 2008, they began auctioning its assets, including the \$31 million loan note on which Madjlessi had defaulted for the Park Lane Villas project.

The transactions are documented in FDIC and Sonoma County land records.

The winning bidder for Madjlessi's defaulted loan note was a company named 101 Houseco LLC, which is registered under the name of Madjlessi's business partner, James House.

The company received a loan from Sonoma Valley Bank so it could participate in the FDIC auction.

Lonich, Madjlessi's attorney, filed the paperwork to establish 101 Houseco in March 2009. Two weeks later Sonoma Valley Bank loaned the company \$5.45 million. It was an unsecured loan, meaning the bank did not require collateral such as real estate, although the loan was eventually secured last year with property from Park Lane Villas.

A month after receiving the loan, 101 Houseco purchased the deed of trust for \$4.2 million from the FDIC, considerably less than the \$27.5 million Madjlessi still owed on it. The company foreclosed on Madjlessi and took title to a large portion of the Park Lane Villas complex, which includes retail space and condo units that the company now rents out.

To help 101 Houseco receive the loan, Madjlessi had met with a loan officer at Sonoma Valley Bank.

Over the next five months, the bank increased its loan to 101 Houseco to about \$9 million, which was nearly the same amount of TARP money it had recently received from the U.S. Treasury Department.

At Madjlessi's bankruptcy trial, Empey provided photo evidence allegedly taken inside Madjlessi's office of a diagram drawn by the developer to show how he secretly set up 101 Houseco to retain ownership.

Lodich denied his client had a stake in 101 Houseco.

"There is no ongoing or previous partnership between the two of them," Lonich said.

Madjlessi walked into Santa Rosa's planning department two weeks ago and represented himself as an agent of 101 Houseco, according to city planners.

The city is trying to collect an unpaid \$3.1 million in development fees owed by 101 Houseco for Park Lane Villas.

"We are trying to recover the fees," said John Aguirre, who works in the planning department. "But it's been hard to determine who owns it."

Last year, state and federal officials filed \$1.1 million in tax liens against James House.

Westamerica Bank now owns the deed of trust to 101 Houseco, even as it forecloses on Madjlessi for other parts of the Park Lane Villas complex.

Criminal probe coming?

Cutting, the bank's former president, is now senior relationship manager at Rabobank's new Sonoma office. Cathy Gorham, former chief operating officer at Sonoma Valley Bank, is branch manager there.

Brian Melland, who was the commercial loan officer in Sonoma that worked closely with Madjlessi, is now at Sonoma Bank in Santa Rosa as a workout specialist.

Cutting, Gorham and Melland all declined comment.

John Davidovich, an attorney for the inspector general of the FDIC, said his agency is not preparing the report many people in Sonoma had expected, which would outline in part why the bank failed. Under a July rule change, the "material loss report" is no longer required unless the government incurs \$200 million or more in losses from a bank failure, he said.

But a criminal investigation could still be occurring, Davidovich said, although he declined to confirm or deny if one was under way.

It is not unusual for a criminal investigation stemming from a bank failure to take a year or more, he said.

"Bank fraud cases tend to be very document-intensive investigations," he said. "They do take more time."

Sonoma Valley Bank's downfall The Press Democrat, Santa Rosa, Calif. January 23, 2011 Sunday

You can reach Staff Writer Nathan Halverson at 703-1577 or nathan.halverson@pressdemocrat.com News Researcher Teresa Meikle contributed to this story.

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7 FOR: (1.) BREACH OF FIDUCIARY DUTY; AND (2.) ABUSE OF
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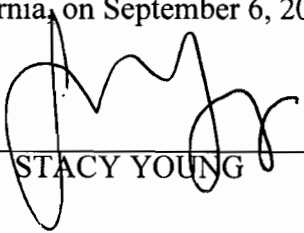
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