



NOTICE OF 2024 SPECIAL MEETING OF SHAREHOLDERS

DATE: October 22, 2024
TIME: 1:00 p.m. Pacific Time
PLACE: Preferred Bank's Corporate Headquarters
601 S. Figueroa Street, 48th Floor
Los Angeles, California 90017

TO THE SHAREHOLDERS OF PREFERRED BANK:

NOTICE IS HEREBY GIVEN that, pursuant to its bylaws and the call of its Board of Directors, a Special Meeting of Shareholders of Preferred Bank will be held at the above referenced date, time and place for the following purposes, all as set forth in the attached Proxy Statement:

1. **APPROVAL OF THE 2024 EQUITY INCENTIVE PLAN.** To approve Preferred Bank's 2024 Equity Incentive Plan (the "**Proposal**").

2. **OTHER BUSINESS.** To transact such other business as may properly come before the Special Meeting and at any and all adjournments thereof.

Only shareholders of record at the close of business on September 3, 2024 will receive notice of, and be eligible to vote at the Special Meeting.

On April 22, 2024, we filed our Definitive Proxy Statement (the "**Proxy Statement**") for our Annual Meeting of Shareholders held on May 30, 2024 (the "**Annual Meeting**"). One of the proposals in the Proxy Statement was a proposal to extend the terms of the Preferred Bank 2014 Equity Incentive Plan (the "**2014 Plan**"). Prior to our Annual Meeting, Institutional Shareholder Services ("**ISS**") recommended a vote "Against" the proposal to extend the 2014 Plan based upon a number of factors related to the 2014 Plan (the "**ISS Recommendation**") it considered to be negative. Immediately following publication of the ISS Recommendation, certain institutional investors voted "Against" the extension of the 2014 Plan, and the proposal to extend the 2014 Plan did not pass. Since the extension of the 2014 Plan did not pass, we currently do not have an equity based compensation plan. On July 16, 2024 our Board of Directors approved the 2024 Equity Incentive Plan (the "**2024 Plan**") to enable us to offer equity based incentives to our officers, directors employees, and consultants that have and will contribute to our success in a manner that addresses the factors in the 2014 Plan that ISS considered negative. We are soliciting your vote to adopt the 2024 Plan.

Our Bylaws provide for the nomination of directors in the following manner:

"Section 2.14 ADVANCE NOTICE OF SHAREHOLDER NOMINEES FOR DIRECTOR AND OTHER SHAREHOLDER PROPOSALS.

(a) Special Meeting of Shareholders.

(i) Nominations of individuals for election to the Board of Directors and the proposal of other business to be considered by the shareholders may be made at an Special Meeting of shareholders (1) pursuant to the corporation's notice of meeting, (2) by or at the direction of the Board of Directors or (3) by any shareholder of the corporation who was a shareholder of record both at the time of giving of notice by the shareholder as provided for in this Section 2.14(a) and at the time of the Special Meeting, who is entitled to vote at the meeting and who has complied with this Section 2.14(a).

(ii) For nominations or other business to be properly brought before an Special Meeting by a shareholder pursuant to clause (3) of paragraph (a)(i) of this Section 2.14(a), the shareholder must have given timely notice thereof in writing to the Secretary of the corporation and such other business must otherwise be a proper matter for action by the shareholders. To be timely, a shareholder's notice shall set forth all information required under this Section 2.14(a) and shall be delivered to the Secretary at the principal executive office of the corporation not earlier than the 90th day and not later than 5:00 p.m., Pacific Time, on the 60th day prior to the first anniversary of the date of mailing of the notice for the preceding year's Special Meeting; *provided, however*, that in the event that the date of the mailing of the notice for the Special Meeting is advanced or delayed by more than 30 days from the first anniversary of the date of mailing of the notice for the preceding year's Special Meeting, notice by the shareholder to be timely must be so delivered not earlier than the 90th day prior to the date of mailing of the notice for such Special Meeting and not later than 5:00 p.m., Pacific Time, on the later of the 60th day prior to the date of mailing of the notice for such Special Meeting or the tenth day following the day on which public announcement of the date of mailing of the notice for such meeting is first made. The public announcement of a postponement or adjournment of an Special Meeting shall not commence a new time period for the giving of a shareholder's notice as described above.

(iii) Such shareholder's notice shall set forth (1) as to each person whom the shareholder proposes to nominate for election or re-election as a director, (A) the name, age, business address and residence address of each such person; (B) the principal occupation or employment of each such person; (C) the class and number of shares of capital stock of the corporation beneficially owned by each such person; and (D) any other information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including without limitation such persons' written consent to being named in the proxy statement as a nominee and to serving as a director if elected); and (2) as to the shareholder giving the notice, (A) the name and address, as they appear on the corporation's books, of such shareholder and (B) the class and number of shares of capital stock of the corporation beneficially owned by such shareholder.

(iv) Such shareholder's notice, as to any other business that the shareholder proposes to bring before the meeting, shall set forth with particularity (1) the name and address of the shareholder submitting such proposal and all persons acting in concert with such shareholder; (2) the name and address of the persons identified in clause (1), as they appear on the corporation's books (if they so appear); (3) the class and number of shares of capital stock of the corporation beneficially owned by the persons identified in clause (1); (4) a description of the proposal containing all material information relating thereto, including, without limitation, the reasons for submitting such proposal; and (v) such other information as the Board of Directors reasonably determines is necessary or appropriate to enable the Board of Directors and shareholders of the corporation to consider such proposal.

(b) Special Meeting of Shareholders. Only such business shall be conducted at a special meeting of shareholders as shall have been brought before the meeting pursuant to the corporation's notice of meeting. Nominations of individuals for election to the Board of Directors may be made at a special meeting of shareholders at which directors are to be elected (i) pursuant to the corporation's notice of meeting, (ii) by or at the direction of the Board of Directors or (iii) provided that the Board of Directors has determined that directors shall be elected at such special meeting, by any shareholder of the corporation who is a shareholder of record both at the time of giving of notice provided for in this Section 2.14 and at the time of the special meeting, who is entitled to vote at the meeting and who complied with the notice procedures set forth in this Section 2.14(b). In the event the corporation calls a special meeting of shareholders for the purpose of electing one or more individuals to the Board of Directors, any such shareholder may nominate an individual or individuals (as the case may be) for election as a director as specified in the corporation's notice of meeting, if the shareholder's notice required by paragraph (ii) of Section 2.14(a) shall be delivered to the Secretary at the principal executive office of the corporation not earlier than the 90th day prior to such special meeting and not later than 5:00 p.m., Pacific Time, on the later of the 60th day prior to such special meeting or the tenth day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. The public announcement of a postponement or adjournment of a special meeting shall not commence a new time period for the giving of a shareholder's notice as described above.

(c) General.

(i) Upon written request by the Secretary or the Board of Directors or any committee thereof, any shareholder proposing a nominee for election as a director or any proposal for other business at a meeting of shareholders shall provide, within five business days of delivery of such request (or such other period as may be specified in such request), written verification, satisfactory, in the discretion of the Board of Directors or any committee thereof or any authorized officer of the corporation, to demonstrate the accuracy of any information submitted by the shareholder pursuant to this Section 2.14. If a shareholder fails to provide such written verification within such period, the information as to which written verification was requested may be deemed not to have been provided in accordance with this Section 2.14.

(ii) Only such individuals who are nominated in accordance with this Section 2.14 shall be eligible for election by shareholders as directors, and only such business shall be conducted at a meeting of shareholders as shall have been brought before the meeting in accordance with this Section 2.14. The Chairman of the meeting shall have the power to determine whether a nomination or any other business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with this Section 2.14 and, if any proposed nomination or business is not in compliance with this Section 2.14, to declare that such defective nomination or proposal be disregarded.

(iii) For purposes of this Section 2.14, (1) the "date of mailing of the notice" shall mean the date of the proxy statement for the solicitation of proxies for election of directors and (2) "public announcement" shall mean disclosure (A) in a press release reported by the Dow Jones News Service, Associated Press, Business Wire, PR Newswire or comparable news service or (B) in a document publicly filed by the corporation with the Federal Deposit Insurance Corporation pursuant to the Exchange Act.

(iv) Notwithstanding the foregoing provisions of this Section 2.14, a shareholder shall also comply with all applicable requirements of state law and of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 2.14. Nothing in this Section 2.14 shall be deemed to affect any right of a shareholder to request inclusion of a proposal in, nor the right of the corporation to omit a proposal from, the corporation's proxy statement pursuant to Rule 14a-8 (or any successor provision) under the Exchange Act.

(v) A copy of this Section 2.14 shall be set forth in a notice to shareholders of any annual or special meeting of the shareholders."

**IMPORTANT NOTICE REGARDING THE INTERNET AVAILABILITY
OF PROXY MATERIALS FOR THE SPECIAL MEETING OF SHAREHOLDERS
TO BE HELD ON OCTOBER 22, 2024**

The Notice of Meeting, Proxy Statement and proxy card are available on our website at <https://preferredbank.q4ir.com/proxy-materials/default.aspx>.

IT IS IMPORTANT THAT ALL SHAREHOLDERS VOTE. WE URGE YOU TO SIGN AND RETURN THE ENCLOSED PROXY AS PROMPTLY AS POSSIBLE, REGARDLESS OF WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING IN PERSON. IF YOU DO ATTEND THE ANNUAL MEETING, YOU MAY THEN WITHDRAW YOUR PROXY AND VOTE IN PERSON.

By Order of the Board of Directors

A handwritten signature in black ink, appearing to read 'Li Yu', with a long horizontal stroke extending to the right.

Li Yu
Corporate Secretary

Los Angeles, California
Dated: September 3, 2024



Preferred Bank
601 S. Figueroa Street, 48th Floor
Los Angeles, California 90017
(213) 891-1188

PROXY STATEMENT

FOR THE SPECIAL MEETING OF SHAREHOLDERS
To Be Held on October 22, 2024

INFORMATION ABOUT THE SPECIAL MEETING AND VOTING

Why did you send me the Notice of the Special Meeting?

We have sent this Proxy Statement and the enclosed proxy card because our Board of Directors is soliciting your proxy to vote at the 2024 Special Meeting of Shareholders (the “Special Meeting”) of Preferred Bank (referred to in this Proxy Statement as “Preferred Bank,” “we,” “us,” and “our”).

Holders of our common stock are receiving notice of the meeting.

This Proxy Statement summarizes the information you need to know to cast an informed vote at our Special Meeting. However, you do not need to attend the Special Meeting to vote your shares. Instead, you may simply complete, sign and return the enclosed proxy card.

On what am I voting?

The matter(s) to be considered at the Special Meeting are set forth below.

1. **Approval of the 2024 Equity Incentive Plan**. To approve the Bank’s 2024 Equity Incentive Plan (the “**Proposal**”).
2. **Other Business**. To transact such business as may properly come before our Special Meeting and at any adjournments thereof.

Who is entitled to vote?

We will begin mailing this Proxy Statement and the notice of Special Meeting and the accompanying proxy card on or about September 12, 2024, to all shareholders entitled to vote.

Shareholders who were the owners of record of our common stock at the close of business on September 3, 2024, the record date, will receive notice of, and be entitled to vote at, our Special Meeting. On the record date, there were 13,335,060 shares of our common stock outstanding and no shares of preferred stock outstanding. A holder of shares of our common stock on the record date will be entitled to cast one vote for each share of common stock registered in that holder’s name on each matter to be acted upon at our Special Meeting.

Shareholder of Record: Shares Registered in Your Name

If, on September 3, 2024, your shares were registered directly in your name with our transfer agent, Computershare, then you are a shareholder of record. As a shareholder of record, you may vote in person at the Special Meeting or vote by proxy. Whether or not you plan to attend the Special Meeting, we urge you to go online and vote your shares to ensure your vote is counted.

Beneficial Owner: Shares Registered in the Name of a Broker, Bank or Other Nominee

If, on September 3, 2024, your shares were held in an account at a bank, brokerage firm or other agent or nominee, then you are the beneficial owner of shares held in “street name” and these proxy materials are being forwarded to you by that organization. The organization holding your account is considered the shareholder of record for purposes of voting at the Special Meeting. As a beneficial owner, you have the right to direct your bank, broker or other agent or nominee on how to vote the shares in your account. You are also invited to attend the Special Meeting. However, since you are not the shareholder of record, you may not vote your shares in person at our Special Meeting unless you request and obtain a power of attorney or other proxy authority from that organization and bring it to our Special Meeting.

What constitutes a quorum?

A majority of the outstanding shares of our common stock must be present at the Special Meeting in person or by proxy, in order to constitute a quorum of the shareholders who will vote at this Special Meeting. We will only conduct the business of the Special Meeting if a quorum of the shareholders has been established. Abstentions and broker non-votes, if any, will be counted as shares present for purposes of determining the presence of a quorum of the shareholders. In addition, see below under “What Vote is Required to Approve the Proposal?” regarding the voting requirements for the Proposal.

What vote is required to approve the Proposal?

The affirmative vote of a majority of the outstanding shares of common stock entitled to vote represented, in person or by proxy, and voting at the Special Meeting (which shares voting affirmatively also constitute at least a majority of the required quorum) is required to approve the Preferred Bank 2024 Equity Incentive Plan.

How do I vote if I attend the Special Meeting?

If you are a shareholder of record, you can attend the Special Meeting and vote in person the shares you hold directly in your name. If you choose to do so, please bring the enclosed proxy card and proof of identification. If you want to vote in person at our Special Meeting and you hold shares through a bank, broker or other agent or nominee, you must obtain a power of attorney or other proxy authority from that organization and bring it to our Special Meeting. Follow the instructions from your bank, broker or other agent or nominee included with these proxy materials, or contact your bank, broker or other agent or nominee to request a power of attorney or other proxy authority. If you vote in person at the Special Meeting, you will revoke any prior proxy you or your bank, broker or other agent or nominee may have submitted with respect to the shares of common stock you own of record or beneficially.

How do I vote if I do not attend the Special Meeting?

Please sign, date and return the proxy card in the enclosed pre-paid envelope. By casting your vote, you are authorizing the individuals listed on the proxy to vote your shares in accordance with your instructions. Whether or not you plan to attend the Special Meeting, we urge you to return the proxy card. Returning the proxy card will not affect your right to attend the Special Meeting.

You may vote your shares by telephone by calling the toll-free telephone number shown on your proxy card. Telephone voting is available 24 hours a day, 7 days a week. Voice prompts allow you to vote your shares and confirm that your instructions have been properly recorded. The telephone voting procedures are designed to authenticate the shareholder's identity by using individual control numbers, which you will find on your proxy card. If you vote by telephone, you should NOT return your proxy card.

You may also choose to vote on the Internet. The website for Internet voting is shown on your proxy card. Internet voting is available 24 hours a day, 7 days a week. You will be given the opportunity to confirm that your instructions have been properly recorded. The Internet voting procedures are designed to authenticate the shareholder's identity by using individual control numbers, which you will find on your proxy card. If you vote on the Internet, you should NOT return your proxy card.

If you vote by telephone or Internet, your vote must be received by 1:00 a.m. Eastern Daylight Time, on October 22, 2024, to ensure that your vote is counted.

If you are a beneficial owner of shares registered in the name of your bank, broker or other agent or nominee, you should have received a proxy card and voting instructions with these proxy materials from that organization rather than from us. Simply sign, date and mail the proxy card to ensure that your vote is counted. Follow the instructions from your bank, broker or other agent or nominee included with these proxy materials, or contact your bank, broker or other agent or nominee to request a proxy card or to vote electronically.

What if I do not specify how my shares are to be voted on the proxy card?

If your proxy card is executed and returned, but does not specify how your shares are to be voted, then your common shares represented by the proxy card will be voted in accordance with the recommendations of our Board of Directors for the Proposal; such recommendations are as follows:

- (1) **"FOR"** the approval of the Preferred Bank 2024 Equity Incentive Plan.

If any other matter is properly presented at the meeting, the individuals named on your proxy card will vote your shares using their best judgment. At the time of the mailing of this Proxy Statement, we knew of no matters which needed to be acted upon at the Special Meeting, other than those discussed in the Proxy Statement.

What is the effect of broker nonvotes and abstentions?

If you hold your shares of our common stock in “street name” (that is, through a bank, broker or other agent or nominee) and you fail to instruct your bank, broker or other agent or nominee as to how to vote your shares of common stock, your bank, broker or other agent or nominee may not vote your shares at this Special Meeting. This is known as a broker nonvote. It is therefore important that you provide instructions to your bank, broker or other agent or nominee if your shares are held by such person, so that your vote with respect to the Proposal is counted.

Abstentions will have no effect on the Proposal, unless there are insufficient votes in favor of the Proposal, such that the affirmative votes constitute less than a majority of the required quorum.

May I change my vote after I return my proxy?

Yes. If you fill out and return the enclosed proxy card or vote electronically, you may change your vote at any time before the vote is conducted at the Special Meeting. You may change your vote in any one of three ways:

- You may send to our Corporate Secretary another completed proxy card with a later date or follow the instructions to change your vote if you voted electronically by telephone or Internet.
- You may notify our Corporate Secretary in writing before the Special Meeting that you have revoked your proxy.
- You may attend the Special Meeting and vote in person (your attendance at the Special Meeting, in and of itself, will not revoke your earlier proxy).

Who conducts the proxy solicitation?

We are soliciting the proxies and will bear the entire cost of this solicitation, including the preparation, assembly, printing and mailing of this Proxy Statement and any additional materials furnished to our shareholders. Copies of solicitation material will be furnished to banks, brokerage houses and other agents and nominees holding shares in their names that are beneficially owned by others so that they may forward this solicitation material to these beneficial owners. In addition, if asked, we will reimburse these persons for their reasonable expenses in forwarding the solicitation material to the beneficial owners. We have requested banks, brokerage houses and other agents and nominees to forward all solicitation materials to the beneficial owners of the shares they hold of record.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Based solely upon information furnished to us, the following table sets forth information regarding the beneficial ownership of our common stock as of September 3, 2024 by:

- each person (or group of affiliated persons) who is known by us to own beneficially more than 5% of the outstanding shares of our common stock;
- each of our directors;
- each of our named executive officers; and
- all directors and executive officers as a group.

Except as indicated in the footnotes to this table and except as subject to community property laws where applicable, the persons named in the table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them. You should keep the following points in mind as you read the information in the table:

- The amounts and percentage of our common stock beneficially owned by a holder are reported on the basis of the regulations of the Securities and Exchange Commission (“SEC”), as adopted by the Federal Deposit Insurance Corporation (“FDIC”), that govern the determination of beneficial ownership of securities. Under these regulations, a person or group of persons is deemed to be a “beneficial owner” of a security if that person or group has or shares “voting power,” which includes the power to vote or to direct the voting of the security, or “investment power,” which includes the power to dispose of or to direct the disposition of the security. A person or group of persons is also deemed to be a beneficial owner of any securities with respect to which that person or group has a right to acquire beneficial ownership within 60 days. Under these rules, more than one person may be deemed a beneficial owner of the same security and a person may be deemed to be a beneficial owner of securities as to which that person has no economic interest.
- The percentage of our common stock outstanding is based on 13,335,060 shares of our common stock outstanding as of September 3, 2024 and shares of common stock deemed outstanding pursuant to the definition of beneficial ownership in the preceding paragraph, which includes shares which are not actually outstanding. These shares of common stock which are beneficially owned but not outstanding, are deemed to be outstanding when computing the percentage of ownership of each person or group of persons named above, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person or group.

Name and Address of Beneficial Owner ⁽¹⁾	Common Stock	
	Number of Shares	Percent of Shares
5% Shareholders		
BlackRock Institutional Trust Company, N.A. 50 Hudson Yards, New York, NY 10001 ⁽²⁾	1,344,508	9.78%
T. Rowe Price Associates, Inc. 100 East Pratt Street, Baltimore, MD 21202 ⁽²⁾⁽³⁾	1,105,761	8.04%
The Vanguard Group 100 Vanguard Boulevard, Malvern, PA 19355 ⁽²⁾	867,748	6.31%
Dimensional Fund Advisors. 6300 Bee Cave Road, Building 1, Austin, TX 78746 ⁽³⁾	709,385	5.32%
Directors		
Li Yu ⁽⁴⁾	692,247	5.19%
J. Richard Belliston	19,507	*
William C.Y. Cheng	80,671	*
Clark Hsu ⁽⁵⁾	87,611	*
Chih-Wei Wu	30,417	*
Gary S. Nunnelly	29,913	*
Wayne Wu ⁽⁶⁾	25,780	*
Kathleen Shane	8,500	*
Named Executive Officers		
Wellington Chen	21,690	*
Edward Czajka	31,109	*
Nick Pi	2,455	*
Johnny Hsu	8,000	*
All directors and executive officers as a group (12 in number)	1,037,900	7.78%

* Less than 1 percent.

⁽¹⁾ The address for each of the persons below, other than BlackRock Institutional Trust Company N.A., T. Rowe Price Associates, Inc., The Vanguard Group and Dimensional Fund Advisors is c/o Preferred Bank, 601 S. Figueroa Street, 48th Floor, Los Angeles, California 90017.

⁽²⁾ Outstanding shares and percent of shares based on public filings for the period ended December 31, 2023.

⁽³⁾ These securities are owned by various individual and institutional investors which T. Rowe Price Associates, Inc. (Price Associates) serves as investment advisor with power to direct investments and/or sole power to vote the securities. For purposes of the reporting requirements of the Securities Exchange Act of 1934, Price Associates is deemed to be a beneficial owner of such securities; however, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such securities.

⁽⁴⁾ Includes 621,847 shares for which Mr. Yu shares beneficial ownership with his wife and 70,400 shares held in the Yu Family Foundation.

⁽⁵⁾ Includes 72,781 shares held by various Trusts of which Mr. Hsu has voting influence.

⁽⁶⁾ Includes 10,477 shares held by Pacific Health Investment Inc. of which Mr. Wu retains voting authority.

Compensation of Directors

All non-employee directors receive an annual fee of \$45,000 and \$1,000 for each Board of Directors meeting attended in person and \$500 if attended by phone. In addition, the Chair of the Audit Committee receives an annual fee of \$20,000, while the other members of the Audit Committee receive \$10,000. The Chair of the Compensation Committee receives an additional \$14,000 annual fee, while the other members of the Compensation Committee receive \$9,000. The

Chair of the Loan Committee receives an additional \$16,000 annual fee, while the other members of the Loan Committee receive \$10,000. In addition, each member of the Loan Committee, Compensation Committee, Investment Committee and Audit Committee receives \$500 for each committee meeting they attend if it is held on a day other than a day of a regular meeting of the Board of Directors. Directors are also eligible to participate in our 2014 Equity Incentive Plan and previously were eligible to participate in our 2004 Equity Incentive Plan. On May 16, 2023, 2,000 fully vested stock awards were granted to each non-employee Director under the 2014 Equity Incentive Plan

The following table summarizes the compensation paid to our non-employee directors during 2023. Compensation paid to Mr. Li Yu is set forth in the Summary Compensation Table.

2023 Director Compensation

Name	Fees Earned or Paid in Cash ⁽¹⁾	Stock Awards ⁽²⁾	Total Compensation
J. Richard Belliston	\$86,500	\$89,520	\$176,020
William C. Y. Cheng	\$76,000	\$89,520	\$165,520
Clark Hsu	\$78,500	\$89,520	\$168,020
Gary S. Nunnelly	\$81,500	\$89,520	\$171,020
Kathleen Shane	\$73,000	\$89,520	\$162,520
Chih-Wei Wu	\$50,000	\$89,520	\$139,520
Wayne Wu	\$63,500	\$89,520	\$153,020

(1) Each director received an annual fee which was set at \$45,000 for 2023. Fees in excess of the annual fee represent fees for meeting attendance and compensation for committee chairmanships.

(2) Stock award value based on the market value of the stock at grant date

Dated: April 1, 2024

COMPENSATION DISCUSSION AND ANALYSIS

Introduction

This Compensation Discussion and Analysis (“CD&A”) reviews the objectives and elements of the Bank’s executive compensation program and discusses the 2023 compensation earned by our named executive officers (“NEOs”) listed below. It also explains the actions the Compensation Committee of the Board (the “Compensation Committee”) took to help ensure that the ongoing executive compensation program is aligned with shareholder interests and the Bank’s business strategy.

Name	Principal Position
Li Yu	Chairman and Chief Executive Officer
Wellington Chen	President and Chief Operating Officer
Edward Czajka	Executive Vice President and Chief Financial Officer
Nick Pi	Executive Vice President and Chief Credit Officer
Johnny Hsu	Executive Vice President, Deputy Chief Operating Officer

Executive Summary

Where We Are Today

Preferred Bank is a high-performing community banking franchise with a long, successful track record of strong financial performance and a senior leadership team with deep ties to the Chinese American and mainstream banking communities. A highly-engaged senior leadership team with the ability to execute our distinctive business model, which is focused on both the ethnic Chinese and mainstream markets, has always been critical to our business. As such, our executive compensation program is designed to attract and retain the highest-level performers in our industry who can drive long-term, top-level performance. At the same time, the program is intended to foster management stability and support our leadership succession plans.

The strength of our senior leadership team is demonstrated through our performance results. Despite the banking crisis brought on by the sudden collapse of three large regional banks in the first half of 2023, the Bank maintained ample liquidity and grew capital ratios, while also returning capital to shareholders through share repurchases. The Bank’s active and strategic management of asset/liability sensitivity continued to produce strong net interest margins throughout the year. This, coupled with the Bank’s highly disciplined approach to managing expenses, resulted in another consecutive year of record earnings. In the face of the unforeseen challenges caused by the 2023 banking crisis, we continued to deliver profitable results that are clearly superior to our peers.

Our executive compensation program has always been designed to keep our senior leadership team stable and focused on the financial and strategic performance drivers that have been integral to our continued success. Our NEO’s continued to work as a cohesive team and this represents a stable center of operations which was important not only to achieving the Bank’s goals, but also in guiding the Bank through an unpredictable and disruptive banking crisis. Our NEOs continue to set the example for all of the Bank’s personnel with their commitment to the Bank and to its long-term success.

2023 Performance Highlights

Financial & Strategic Achievements

The Bank experienced yet another strong year of financial performance and organic growth in 2023. The table below sets forth the growth and key financial metrics over the past five years.

Fiscal Year	Diluted Earnings per Share	Net Income (\$000's)	Book Value per Share	Total Assets (\$000's)	Return on Average Assets	Return on Equity	Efficiency Ratio
2023	\$ 10.52	\$ 150,040	\$ 50.54	\$ 6,659,276	2.28%	23.80%	25.85%
2022	\$ 8.70	\$ 128,845	\$ 43.75	\$ 6,421,886	2.08%	21.96%	27.48%
2021	\$ 6.41	\$ 95,240	\$ 39.76	\$ 6,044,917	1.74%	18.13%	31.40%
2020	\$ 4.65	\$ 69,468	\$ 35.01	\$ 5,141,360	1.41%	14.78%	31.83%
2019	\$ 5.16	\$ 78,371	\$ 31.47	\$ 4,628,481	1.82%	17.43%	33.26%

Despite having to navigate the fallout from the banking crisis in 2023, the Bank's overall results were very strong. The Bank posted record earnings of \$150.0 million, or \$10.52 per share for 2023, which was attributable to management's relentless focus on active margin management and continuous effective cost control. The Bank's net interest margin continued to improve in 2023, growing to 4.49%, despite heightened competition for deposits and quality loans, and a strong focus on maintaining ample levels of liquidity.

These results were achieved partly because of management's efforts in recent years to keep the Bank's balance sheet somewhat asset sensitive. This strategy proved to be especially effective as the Federal Reserve Open Market Committee ("FOMC") raised short term rates by 525 basis points over the course of 2022 and 2023. The Bank has now had 46 consecutive profitable quarters and has more than quadrupled in size over the last decade. During this period of asset and earnings growth, the Bank has also been highly effective in controlling overhead, maintaining one of the lowest efficiency ratios in the industry. Other significant highlights of 2023 include the following:

- Recorded its highest annual net income in the Bank's corporate history, with net income rising 16.5% from the previous year to \$150.0 million
- Continued to be one of the most efficient banks in the U.S., with our efficiency ratio further improving to 25.8%
- Net interest margin (NIM) of 4.49%, a 9.8% improvement over 2022 and exceeding the average NIM for U.S. banks
- Return on assets of 2.28%
- Return on equity of 23.80%
- Improvement across all capital ratios
- Announcement of a 27.3% increase in per share dividends to \$2.80 per annum

2023 Say on Pay / Shareholder Engagement

Each year, we carefully consider the results of our shareholder say-on-pay vote from the preceding year. We also take into account the feedback we receive from our major shareholders. In 2023, approximately 99% of the votes cast supported our executive compensation decisions. Based on this high level of support, we did not make substantive changes to the structure of our program. We will continue to keep an open dialogue with our shareholders to help ensure that we have a regular pulse on investor perspectives.

Compensation Governance Practices

Our executive compensation program includes the following practices and policies, which promote sound compensation governance and are in the best interests of our shareholders:

<u>What We Do</u>	<u>What We Don't Do</u>
✓ Heavy emphasis on variable compensation	× No “single trigger” change-in-control payments
✓ 50% of CEO target long-term incentives are performance-based	× No severance payments exceeding 1.5x total cash compensation
✓ Incentive Repayment (Clawback) Policy	× No option backdating or repricing
✓ Modest change-in-control benefits	× No tax gross ups
✓ Annual risk assessments	× No excessive perquisites

Overview of Our Program

Compensation Philosophy and Objectives. The changes we have made to our executive compensation program were carefully developed to incorporate the information that we gathered and analyzed from investor feedback and conversations, the result of our say on pay vote, proxy advisory firms, an independent consultant, management and our full Board. The philosophy underlying our program, however, has been consistent over the years — to attract, motivate and retain the best leaders in our industry to ensure we execute on our business strategy, promote both short-and long-term growth of the Bank in a safe and sound manner, and create long-term shareholder value, all grounded in the following guiding principles:

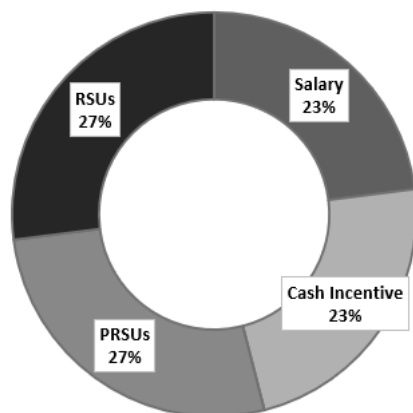
Pay for Performance	A significant portion of an executive’s total compensation should be variable and dependent upon the attainment of certain specific and measurable annual and long-term business performance goals.
Shareholder Alignment	Executives should be compensated through pay elements (base salaries, annual- and long-term incentives) designed to create long-term value for our shareholders, as well as foster a culture of ownership.
Attraction and Retention	The executive compensation program should enable the Bank to attract highly-talented people with exceptional leadership capabilities and retain high-caliber talent.

Compensation Mix. Our compensation philosophy is supported by the following principal pay elements:

Pay Element	How Its Paid	Purpose
Base Salary	Cash (Fixed)	Reflects each NEO’s position, experience, individual performance, and expertise. Salary levels are set with the intention to attract, retain, motivate, and reward quality executives in the competitive banking marketplace.
Annual Cash Incentives	Cash (Variable)	Focuses NEOs on achieving short-term financial and strategic goals that drive long-term shareholder value.
Long-Term Equity Incentives	Equity (Variable)	Provides incentives for NEOs to execute on longer-term financial goals that drive shareholder value creation and support the Company’s goals

CEO Target Compensation Mix: Our executive compensation program emphasizes variable pay that aligns compensation with performance and shareholder value. For our CEO, the mix of compensation elements is heavily weighted toward variable, performance-based compensation with a balanced focus on growth and profitability. The CEO’s compensation has a greater emphasis on variable compensation than that of the other NEOs because his actions have a greater influence on the performance of the Company as a whole. As shown here, the significant majority (75%) of CEO pay is variable based upon annual target total direct compensation.

2023 CEO Target Pay Mix



Our Approach to Incentive Awards. Our cash and equity incentives for our CEO place a focus on attaining pre- established performance goals. The Compensation Committee chose metrics, both financial and strategic, to measure performance and ensure that pay is fully aligned with performance. Each year, the financial performance metrics upon which our NEOs’ performance-based incentive awards are directly linked to the key drivers of our business and goals are set at appropriately challenging levels. The strategic goals approved by the Compensation Committee at the beginning of each year are directly related to our business and ensure that the highest priorities are identified, monitored and measured. All the financial and strategic goals are thoughtfully developed to complement each other — creating a holistic program that aligns our business strategy with the interests of our shareholders.

Decision-Making Process

Role of the Compensation Committee

Our Compensation Committee is a standing committee appointed by our Board of Directors to oversee our compensation and employee benefit plans and practices, including our executive compensation plans and our incentive-compensation and equity-based plans. The Compensation Committee's authorities and responsibilities are set forth above under "BOARD MATTERS – The Committees of the Board."

The goal of the Compensation Committee is to ensure that the links between our executive compensation program and our business goals are responsible, appropriate and strongly aligned with long-term shareholder interests, and that the Bank's compensation is competitive in the markets in which we compete for talent. The Committee annually determines the compensation levels of our NEOs by considering several factors, which include, but are not limited to:

- The latest available competitive compensation data for similar jobs and responsibilities in our local marketplace;
- The limited pool of qualified and available talent locally and the need to keep our leadership team stable;
- The Bank's performance against internal financial measurements, as well as against our industry competitors;
- The NEO's performance in executing our strategic initiatives; and
- Macro and local economic conditions.

Preferred Bank is a rapidly growing organization in a highly-competitive market for top management talent. We are continuously looking for individuals with the ability to thrive in a high-performance corporate environment, and the banking experience necessary, to help the Bank grow and achieve its strategic goals. The difficulty of attracting and retaining such highly qualified personnel in the markets where we operate has been a significant factor in how we determine compensation, and we expect that it will continue to be a significant factor moving forward.

Role of Management

Members of our management team attend regular meetings where executive compensation, Company and individual performance, and competitive compensation levels and practices are discussed and evaluated. The CEO reviews his recommendations pertaining to the compensation of the other NEOs with the Compensation Committee providing management input, transparency and oversight. Approvals of NEO compensation other than CEO compensation are made by the Compensation Committee. The CEO does not participate in the deliberations of the Compensation Committee regarding his own compensation. Independent members of the Board make all final determinations regarding CEO compensation.

Role of the Compensation Consultant

From time to time, our Compensation Committee seeks advice from outside experts in the executive compensation field to provide input on both Board of Director compensation and executive compensation issues. In 2023, the Committee engaged Pearl Meyer & Partners, LLC ("Pearl Meyer") for general assistance in executive compensation matters. In accordance with NASDAQ listing standards, the Committee took appropriate actions to consider the independence of Pearl Meyer.

The Role of Benchmarking and Peer Groups

We compete for executive-level banking talent in a niche market, which includes regional commercial banking organizations and other banks with a presence in the Chinese-American market. Given the uniqueness of our business, in terms of our focus on ethnic Chinese and mainstream markets and the high-performance expectations we place on our senior leaders, we believe that it is critical to evaluate our pay programs relative to our direct industry peers, as opposed to a generic group of similarly-sized financial services companies whose businesses may differ from ours.

The Compensation Committee compares our executive compensation program to a group of companies that are comparable in terms of industry, size and geography. The overall purpose of this peer group is to provide

a market frame of reference for evaluating our compensation arrangements (current or proposed) and performance results, understanding compensation trends among comparable companies and reviewing other compensation and governance-related topics that may arise during the year to ensure that the features of the Bank’s executive compensation program are appropriately aligned with market-best practices.

For 2023, the Compensation Committee reviewed publicly-available information about the following companies using sources, such as filings with the SEC, reports filed with banking regulatory agencies, press releases, and similar publicly-available information: Banc of California, Banner Corporation, Bank of Marin Bancorp, CVB Financial Corp., First Foundation, Inc., Heritage Commerce Corp., Heritage Financial Corporation, Pacific Premier Bancorp, Royal Business Bank, Westamerica Bancorporation and Sierra Bancorp.

The Compensation Committee chose to include these commercial banks in the peer group given that these companies were, on balance, of similar size and scope as the Bank (assets, revenue and market capitalization between 0.5x and 3.0x the Company), operate in similar geographic areas, and compete with the Bank for business and talent. It is important to note that the Compensation Committee does not rely exclusively on comparative data from the peer group when setting compensation for our NEOs. While peer group information can help identify general trends in executive compensation practices and overall executive compensation, the Compensation Committee recognizes there can be meaningful differences between the Bank and its peer banks. In addition to peer group data, the Compensation Committee also considers many other factors such as individual and company performance, position and associated responsibilities, retention and stability of the executive management team, tenure, and succession considerations.

2023 Executive Compensation Decisions in Detail

Base Salary

As described in the previous section of this CD&A, the Compensation Committee believes that base salaries must be market-competitive to ensure the Bank’s ability to attract and retain top quality talent, but that increases in this fixed component of pay should be handled in a measured fashion. Increases above a normal merit level are considered in certain circumstances, such as promotion, additional or changed responsibilities, recognition of increased value associated with professional growth and leadership that brings additional value to the Bank, or in response to changes in market value for a given executive role. Effective March 1, 2023, the Committee approved base salary increases to each of the NEOs. The adjustments were to ensure we continue to provide appropriate salary levels as we compete for executive-level banking talent in a niche market.

NEO	2022 Salary	2023 Salary	Percentage Increase
Li Yu	\$960,000	\$1,010,000	5.2%
Wellington Chen	\$600,000	\$650,000	8.3%
Edward Czajka	\$411,000	\$461,000	12.2%
Nick Pi	\$369,600	\$419,601	13.5%
Johnny Hsu	\$300,000	\$350,000	16.7%

Annual Cash Incentives

The 2023 annual cash incentives provided our NEOs the opportunity to earn a performance-based annual cash incentive award. Actual award payouts depend on the achievement of pre-established performance objectives and can range from 0% to 150%. Annual cash incentives reward both the achievement of short-term financial goals, as well as the execution of activities to advance our strategic priorities.

2023 Target Annual Cash Incentive Award Opportunities Target annual cash incentive award opportunities were expressed as a percentage of base salary, were established according to the NEO's level of responsibility and his or her ability to impact overall results, and to help ensure that actual payouts are appropriately aligned with our performance. The annual cash incentives are subject to payout limits, with annual cash incentive awards being capped at 150% of target. The table below provides a summary of the target annual cash incentive award opportunities for each NEO for fiscal 2023:

NEO	Target Annual Cash Incentive (as a % of Base Salary)	Target Annual Award Opportunity (as a \$ Amount)
Li Yu	100%	\$1,010,000
Wellington Chen	80%	\$520,000
Edward Czajka	70%	\$322,700
Nick Pi	70%	\$293,721
Johnny Hsu	70%	\$245,000

2023 Financial and Strategic Goal Weighting. The financial performance metrics upon which our NEOs' performance-based incentive awards are determined are directly linked to the key drivers of our business. The strategic goals approved by the Compensation Committee at the beginning of each year are directly related to our business and ensure that the highest priorities are identified, monitored and measured. The weighting between the financial performance and strategic goals for each of the NEOs depends on their role within the Company and accountability for driving results towards goals for specific areas of the business. The table below provides a summary of the weightings between the financial and strategic goals for each NEO for fiscal 2023:

NEO	Percentage of Total Annual Incentive Award (Weighting)	
	Financial Performance Goals	Strategic Goals
Li Yu	75%	25%
Wellington Chen	50%	50%
Edward Czajka	50%	50%
Nick Pi	40%	60%
Johnny Hsu	40%	60%

2023 Financial Goals and Results. The financial portion of an NEO's annual cash incentive award is tied to the achievement of certain financial metrics. For 2023, as outlined above, those metrics include the Bank's diluted EPS, loan growth and deposit growth.

Target performance levels for 2023 were determined by the Compensation Committee in the context of the continued uncertainty surrounding changes in economic and market conditions due to geopolitical risks, inflationary pressures and elevated interest rate levels. Target diluted EPS was set at \$9.49, which represents a 9.1% increase over 2022 diluted EPS. This challenging goal was set at the beginning of 2023 against the macroeconomic headwinds facing the regional banking industry, despite the continued uncertainty created by higher inflation, higher interest rates and the specter of an economic slowdown occurring in 2023. Target loan growth of 7.5% and target deposit growth of 6.0% were also appropriately challenging goals, given the need to manage credit quality in a changing and uncertain business environment, continued competition among banks for quality loans, and heightened competition for deposits as a result of higher interest rates. Performance below or above target results in an award ranging from 0% to a maximum of 150% of target. The strategic achievements are evaluated based upon demonstrated performance

against the pre-determined objectives with a maximum payout of 150% of target.

The table below outlines the financial goals and actual results for 2023:

Metric	Weight	Level of Performance			2023 Actual Results	Payout Achievement (as a % of Target)
		Threshold (50%)	Target (100%)	Maximum (150%)		
DEPS	70%	\$8.97	\$9.49	\$10.01	\$10.52	150.0%
Loan Growth (Ex-PPP)	15%	4.5%	7.5%	10.5%	3.91%	0.0%
Deposit Growth	15%	3.0%	6.0%	9.0%	2.74%	0.0%

Due to the banking crisis that unfolded in March of 2023, the Board and executive management decided to shift the Bank's priorities to focus on managing liquidity, capital levels, credit quality and profitability, rather than emphasize loan and deposit growth. While the initial loan and deposit growth targets were no longer realistic in light of the banking crisis, and although the Compensation Committee had the capability and discretion to adjust target performance levels mid-year, the Compensation Committee decided not to make any adjustments for 2023 due to the ongoing uncertainty and persistent challenges in the regional banking industry at the time. Based on these financial performance results, the portion of the annual incentive award based on financial achievement goals for each of the NEOs was paid at approximately 105% of target.

2023 Strategic Goals and Results. Strategic goals and weightings for each of the NEOs were determined by the Compensation Committee at the beginning of the year based on the Company's business priorities, and the roles and responsibilities of each of the NEOs for executing on such goals during the year as set forth in the table below:

Strategic Goals	NEOs (Weightings)				
	Mr. Yu	Mr. Chen	Mr. Czajka	Mr. Pi	Mr. Hsu
Compliance/BSA	15%	25%	10%	15%	25%
Credit Quality	25%	25%	N/A	60%	25%
Organizational Development	15%	20%	10%	15%	20%
Efficiency/Cost Control	15%	15%	30%	10%	20%
Investor Relations	10%	N/A	20%	N/A	N/A
Liquidity/Rate Sensitivity	20%	15%	20%	N/A	10%
Investment Asset Quality	N/A	N/A	10%	N/A	N/A
TOTAL	100%	100%	100%	100%	100%

During its February 2024 meeting, the Compensation Committee assessed the performance of all the NEOs in achieving the strategic goals, as summarized below:

Strategic Goals	Key Highlights
Compliance/BSA	<ul style="list-style-type: none"> Thoroughly prepared for, and successfully completed regulatory compliance examination, which included a full scope BSA examination, in 2023 Successful completion of internal third party Compliance/BSA audit Strong ongoing management of Compliance/BSA policies and programs Effectively managed personnel transitions within the Compliance/BSA departments Implemented significant improvements in the Bank's CRA program.
Credit Quality	<ul style="list-style-type: none"> Worked with borrowers to effectively manage increases in interest rates and established the interest deferment program Achieved stable credit quality in loan portfolio by limiting exposure to weaker areas of the commercial real estate market. Managed the asset sensitivity of the balance sheet with disciplined loan pricing while maintaining credit standards Proactive loan resolution Consistent periodic credit reviews, stress testing and concentration monitoring by Credit Administration

	<ul style="list-style-type: none"> • Successful implementation and solid growth in SBA loan program, obtaining Preferred Lender Program status in 2023 • Produced stable and measured growth in the bank’s mortgage loan portfolio • Continued disciplined growth of New York and Texas loan portfolios
Organizational Development	<ul style="list-style-type: none"> • Continued growth and development of a stable executive management team working closely together to achieve the Bank’s key objectives for 2023 • Continued focus on recruiting, developing and retaining key personnel in a very tight labor market and in a highly cost efficient manner • Annual revenue per employee of \$1.65 million, the closest of our local peer banks is \$1.2 million per employee and the average of our nine local peers was \$821k of revenue per employee • Expanded branch network with new branches in Houston, Texas and Irvine, California
Efficiency/Cost Control	<ul style="list-style-type: none"> • Remained highly committed to achieving high cost efficiency throughout all levels of the organization and maintains one of the lowest efficiency ratios in the industry • Ended the year with a 25.85% efficiency ratio, a 5.9% improvement from the 27.48% efficiency ratio the Bank recorded at the end of 2022.
Investor Relations	<ul style="list-style-type: none"> • Sustained effective shareholder communication strategies throughout the 2023 banking crisis, reinforcing investor confidence though challenging market conditions • Proactively engaged the research community and institutional shareholders through frequent phone calls and video conferences throughout the year
Liquidity/Rate Sensitivity	<ul style="list-style-type: none"> • Successfully managed through the March 2023 banking crisis due to the high levels of cash on the balance sheet • Bank’s active and strategic management of asset/liability sensitivity helped expand net interest margins to 4.49% in 2023 despite continually rising deposit costs across the entire banking industry • Satisfactory or better regulatory ratings for sensitivity to market risk and liquidity for 2023 • Over 100% liquidity coverage of uninsured deposits • Grew deposits in 2023 despite heightened competition for deposits due to higher interest rates and fallout from the March banking crisis • Able to grow and maintain ample liquidity in 2023
Investment Asset Quality	<ul style="list-style-type: none"> • Effectively and properly managed duration risk in investment portfolio • Avoided substantial mark-to-market adjustments in investment portfolio in a rising interest rate environment due to disciplined investing strategy • Investment portfolio has one of the highest yields among peer banks

Based on the above assessment, the Compensation Committee determined the achievement of Corporate strategic goals to range between 95% to 98% of target.

Overall Annual Cash Incentive Payout Results. Based on the performance results described above, the following table lists the actual annual cash incentive awards paid to the NEOs for 2023:

NEO	Target Award Opportunity		Financial Performance		Strategic Performance		Actual Award Payout	
	%	\$	Weighting	Achievement (as a % of target)	Weighting	Achievement (as a % of target)	% of target	\$
Mr. Yu	100%	\$1,010,000	75%	105%	25%	98%	103.0%	\$1,041,941
Mr. Chen	80%	\$520,000	50%	105%	50%	95%	100.1%	\$520,520
Mr. Czajka	70%	\$322,700	50%	105%	50%	96%	100.3%	\$323,668
Mr. Pi	70%	\$293,721	40%	105%	60%	95%	99.1%	\$291,136
Mr. Hsu	70%	\$245,000	40%	105%	60%	96%	99.7%	\$244,461

The Compensation Committee, at its discretion, reserves the right to adjust downward any award payments proposed for a NEO. Against the extremely challenging backdrop of the 2023 banking crisis, and the critical need to shift

management’s priorities from growth to liquidity management, credit quality and profitability, after initial performance targets had been set, the Compensation Committee determined, based on the Bank’s overall strong performance both absolute and relative to our peers in 2023, to award Messrs. Yu, Chen, Czajka, Pi and Hsu additional, one-time cash bonuses of \$170,000, \$75,000, \$40,000, \$30,000 and \$24,000, respectively.

2023 Long-Term Equity Incentives Grants

The Compensation Committee has determined that our CEO will receive half of his target long-term equity incentive award opportunity in performance-based restricted stock units, subject to the achievement of pre-determined, multi-year financial measures, including the Bank’s return on average assets (“ROA”) and return on average equity (“ROE”) performance relative to companies in the KBW Regional Bank Index (“KRX”), measured after the end of the three-year performance period. The other half of our CEO’s equity award is granted as time-based restricted stock units. Performance-based equity incentive award payouts for our CEO are capped at 175% of target. The other NEOs continue to receive 100% of their equity incentive awards in time-based restricted stock units.

On February 2, 2023, the Compensation Committee approved equity grants to each of the NEOs as summarized below.

CEO Long-Term Equity Incentives. In granting long-term equity awards to Mr. Yu, 50% of the target value of the awards were comprised of performance-based restricted stock units (“RSUs”), payable at the end of a three-year performance period (January 1, 2023 through December 31, 2025) based on the achievement of pre-determined financial goals. For the 2023 PRSU grant, the Compensation Committee selected ROA and ROE as the financial metrics upon which performance will be measured and awards will be earned. The Compensation Committee chose relative ROA and ROE because they are significant measures used in our industry for measuring long-term performance — they are regularly tracked by our investors and fully understood by our executives. The Compensation Committee also believes that strong execution against both measures will create superior shareholder value over the long term.

Below is a summary of the metrics and weightings effective with the 2023 grant to Mr. Yu:

PRSU Performance Metrics	Weighting	Level of Performance		
		Threshold (50%)	Target (100%)	Maximum (175%)
Relative ROA	50%	33rd percentile	55th percentile	80th percentile
Relative ROE	50%			

The actual number of PRSUs earned by Mr. Yu may be higher or lower than the target amount, depending on the Bank’s performance relative to the KRX, measured after the end of the three-year performance period

The other half of Mr. Yu’s long-term equity incentive award is granted as time-based restricted stock units (“RSUs”). Under the plan, RSUs vest in 25% increments, with the first tranche vesting on the date of the grant. As long as Mr. Yu remains with the Company, the remaining RSUs will vest in 25% increments on each December 31st thereafter, until fully vested on December 31, 2025. As of December 31, 2023, Mr. Yu was 50% vested in the RSUs granted in 2023. No dividend rights are associated with the PRSUs and RSUs until shares are issued in payment of earned units, and vested RSUs will not be released to Mr. Yu as issued shares until either the final tranche becomes vested or separation from employment, if sooner.

The Compensation Committee established the target number of PRSUs and RSUs for Mr. Yu based on the closing price of our common stock on December 31, 2022, such that his target total award value was equal to approximately 200% of his base salary (half in target PRSUs and half in RSUs). The following table shows the long-term equity incentive awards granted to Mr. Yu on February 2, 2023.

NEO	Target PRSUs (#)	Target Grant Date Fair Market Value of PRSUs* (\$)	RSU Awards (#)	Grant Date Fair Market Value of RSUs** (\$)
Li Yu	17,500	\$1,305,850	17,500	\$1,305,850
*100% of the overall award value for the PRSUs were determined based on the closing price of our common stock on the date of grant.				
**75% of the overall award value for the RSUs were determined based on the closing price of our common stock on the date of the grant. 25% of the overall award value for the RSUs were determined based on the closing price of our common stock on December 31, 2022.				

Other NEO Long-Term Equity Incentives. The other NEOs received time-vested restricted stock units (“RSUs”), with the same vesting and payout terms as Mr. Yu’s RSU award. The following table shows the RSU grants awarded to each of the other NEOs on February 2, 2023. These grants were made based on the performance of the Bank in a pandemic and each NEO’s achievement of strategic goals and individual goals for 2022.

NEO	RSU Awards (#)	Fair Market Value of RSUs (\$)
Wellington Chen	7,000	\$522,340
Ed Czajka	4,200	\$313,404
Nick Pi	4,000	\$298,480
Johnny Hsu	4,000	\$298,480

2024 Long-Term Equity Incentives Grants

On February 6, 2024, the Compensation Committee approved equity grants to each of the NEOs as summarized below.

CEO Long-Term Equity Incentives. In granting long-term equity awards to Mr. Yu, 50% of the target value of the awards were comprised of PRSU, payable at the end of a three-year performance period (January 1, 2024 through December 31, 2026) based on the achievement of pre-determined financial goals. For the 2024 PRSU grant, the Compensation Committee again selected ROA and ROE as the financial metrics upon which performance will be measured and awards will be earned.

Below is a summary of the metrics and weightings effective with the 2024 grant to Mr. Yu:

PRSU Performance Metrics	Weighting	Level of Performance		
		Threshold (50%)	Target (100%)	Maximum (175%)
Relative ROA	50%	33rd percentile	55th percentile	80th percentile
Relative ROE	50%			

The actual number of PRSUs earned by Mr. Yu may be higher or lower than the target amount, depending on the Bank’s performance relative to the KRX, measured after the end of the three-year performance period.

The other half of Mr. Yu’s long-term equity incentive award is granted as RSUs. Under the plan, RSUs vest in 25% increments, with the first tranche vesting on the date of the grant. As long as Mr. Yu remains with the Company, the remaining RSUs will vest in 25% increments on each January 1st thereafter, until fully vested on January 1, 2027. As of January 1, 2024, Mr. Yu was 25% vested in the RSUs granted in 2024. No dividend rights are associated with the PRSUs and RSUs until shares are issued in payment of earned units, and vested RSUs will not be released to Mr. Yu as issued shares until either the final tranche becomes vested or separation from employment, if sooner.

The Compensation Committee established the number of PRSUs and RSUs for Mr. Yu based on the closing price of our common stock on January 1, 2024, such that his target total award value was equal to approximately 200% of his base salary (half in target PRSUs and half in RSUs). The following table shows the long-term equity incentive awards granted to Mr. Yu on February 6, 2024.

NEO	Target PRSUs (#)	Target Grant Date Fair Market Value of PRSUs* (\$)	RSU Awards (#)	Grant Date Fair Market Value of RSUs* (\$)
Li Yu	17,000	\$1,241,850	17,000	\$1,241,850
<i>*100% of the overall award value for the PRSUs were determined based on the closing price of our common stock on January 1, 2024.</i>				

Other NEO Long-Term Equity Incentives. The other NEOs received RSUs, with the same vesting and payout terms as Mr. Yu’s RSU award. The following table shows the RSU grants awarded to each of the other NEOs on February 6, 2024.

NEO	RSU Awards (#)	Fair Market Value of RSUs (\$)
Wellington Chen	7,300	\$533,265
Ed Czajka	4,500	\$328,725
Nick Pi	4,300	\$314,115
Johnny Hsu	4,300	\$314,115

2021 Long-Term Equity Incentives Award Payout

On February 23, 2021, the Compensation Committee granted long-term equity awards to Mr. Yu, with 50% of the target value of the awards comprised of PRSUs, payable at the end of a three-year performance period (January 1, 2021 through December 31, 2023) based on the achievement of relative ROA and ROE goals. Based on the Bank’s performance relative to the companies in the KRX, measured after the end of the three-year performance period, Mr. Yu earned 31,500 PRSUs, which was 175% of target, as summarized below:

PSU Performance Metrics	Weighting	Level of Performance			Actual Ranking (Percentile)	Actual PRSUs Earned
		Threshold (50%)	Target (100%)	Maximum (175%)		
Relative ROA	50%	33rd percentile	55th percentile	80th percentile	96th	31,500
Relative ROE	50%				98th	

Other Compensation Policies, Practices, and Guidelines

Clawback Policy

In accordance with SEC guidelines, specifically Section 10D of the Securities Exchange Act of 1934, the Compensation Committee adopted a formal Clawback Policy in December of 2023. The Clawback Policy provides for the return of any excess incentive compensation received by any covered executive (NEO) during the three completed fiscal years immediately preceding the date on which the Bank is required to prepare an accounting restatement.

For purposes of this Clawback Policy, Incentive Compensation means any of the following; provided that, such compensation is granted, earned, or vested based wholly or in part on the attainment of a financial reporting measure:

- Annual bonuses and other short- and long-term cash incentives
- Stock options
- Stock appreciation rights
- Restricted stock
- Restricted stock units
- Performance shares
- Performance units

Financial reporting measures include:

- Company stock price
- Total shareholder return
- Revenues
- Net income
- Earnings before interest, taxes, depreciation, and amortization (EBITDA)
- Funds from operations
- Liquidity measures such as working capital or operating cash flow
- Return measures such as return on invested capital or return on assets
- Earnings measures such as earnings per share

Other Compensation

Our NEOs participate in our broad-based employee benefit plans, such as medical, dental, 401(k) Retirement Savings Plan, and supplemental disability and term life insurance programs. All of the NEOs either receive an automobile allowance or the Bank leases an auto for them. In addition, Mr. Chen received payment of fees for social club memberships for personal use. The total amounts of these items are reflected in the “All Other Compensation” column of the Summary Compensation Table. The Compensation Committee believes that these items enhance the effectiveness of our NEOs and are consistent with industry practices in comparable banking companies. The Compensation Committee regularly reviews the perquisites we provide.

The Compensation Committee believes that our compensation programs are effective in furthering our objectives of attracting, retaining and motivating the best qualified officers and ultimately will serve to increase our profitability and maximize shareholder value.

Tax Deductibility of Compensation

The Compensation Committee annually reviews and considers the deductibility of the compensation paid to our executive officers, which includes each of the NEOs. However, under the Tax Cuts and Jobs Act of 2017, the exemption for qualifying performance-based compensation was repealed for taxable years beginning after December 31, 2017. As a result, compensation paid to our executive officers (on or after January 1, 2018) in

excess of \$1 million may not be deductible unless it qualifies for certain transition relief. While the Company will monitor guidance and developments in this area, the Compensation Committee believes that its primary responsibility is to provide a compensation program that attracts, retains and rewards the executive talent necessary for our success. Consequently, the Compensation Committee may pay or provide, and has paid or provided, compensation that is not tax deductible or is otherwise limited as to tax deductibility.

Risk Assessment of Incentive Compensation

The Compensation Committee reviewed the Bank’s compensation policies and practices for our named executive officers, as well as the incentive plans for other employees and determined that our incentive compensation programs are not reasonably likely to have a material adverse effect on the Bank. To conduct this review, the Bank evaluated its practices and policies including: the balanced mix between pay elements, short and long-term programs, Compensation Committee control over the establishment, review and approval goals, use of multiple performance measures, Compensation Committee discretion on individual awards, and Compensation Committee oversight of compensation programs.

The Compensation Committee also evaluated whether the proposed goals or the structure of the awards might have the inadvertent effect of encouraging excessive risk or other undesirable behavior. The Compensation Committee believes that its risk management framework supports risk management in the Bank’s incentive arrangements.

Compensation Committee Report

The Compensation Committee Report on Executive Compensation is not deemed to be “soliciting material” or to be filed with the FDIC or subject to the FDIC’s proxy rules or the liabilities of Section 18 of the Exchange Act and the report shall not be deemed to be incorporated by reference into any prior or subsequent filing by us under the Exchange Act, except to the extent that we specifically incorporate the information contained in the report by reference therein.

The Compensation Committee reviewed and discussed with management the Compensation Discussion and Analysis set forth below as required by Item 402 of Regulation S-K promulgated under the Exchange Act. The Compensation Committee recommended to the Board of Directors and the Board of Directors approved the inclusion of the Compensation Discussion and Analysis in this Proxy Statement for the Bank’s Annual Meeting to be held on May 30, 2024

Respectfully submitted by the members of the Compensation Committee:

Clark Hsu (Chairman)
J. Richard Belliston
Wayne Wu



The following table sets forth the compensation awarded to, earned by or paid for services received by our named executive officers for the last three fiscal years ended December 31, 2023, 2022 and 2021.

Summary Compensation Table

Name and Principal Position	Year	Salary	Non-Equity Incentive Plan Compensation	Bonus	Stock Awards ⁽¹⁾	All Other Compensation ⁽²⁾	Total
Li Yu, Chairman and Chief Executive Officer	2023	\$1,001,667	\$1,211,991	—	\$ 2,483,700	\$ 22,014	\$4,719,372
	2022	\$958,333	\$ 1,220,000	—	\$ 2,611,700	\$ 9,150	\$4,799,183
	2021	\$950,000	\$ 1,275,909	—	\$ 2,323,538	\$ 8,406	\$4,557,853
Wellington Chen, President & Chief Operating Officer	2023	\$641,668	\$ 595,520	—	\$ 533,265	\$ 39,119	\$1,809,572
	2022	\$593,333	\$ 565,000	—	\$ 513,573	\$ 36,297	\$1,708,203
	2021	\$556,667	\$ 473,487	—	\$ 482,848	\$ 35,123	\$1,548,125
Edward Czajka, Executive Vice President, Chief Financial Officer	2023	\$452,667	\$ 363,668	—	\$ 328,725	\$ 17,100	\$1,162,160
	2022	\$406,667	\$ 338,000	—	\$ 308,144	\$ 16,350	\$1,069,161
	2021	\$382,500	\$ 279,019	—	\$ 306,570	\$ 15,747	\$ 968,089
Nick Pi, Executive Vice President, Chief Credit Officer	2023	\$411,268	\$ 321,136	—	\$ 314,115	\$ 17,100	\$1,063,619
	2022	\$365,333	\$ 296,000	—	\$ 293,470	\$ 16,350	\$ 971,153
	2021	\$341,667	\$ 238,867	—	\$ 260,585	\$ 15,729	\$ 841,119
Johnny Hsu, Executive Vice President, Deputy COO	2023	\$341,668	\$ 268,461	—	\$ 314,115	\$ 17,100	\$ 941,344
	2022	\$294,833	\$ 240,000	—	\$ 293,470	\$ 16,045	\$ 844,348
	2021	\$265,667	\$ 187,757	—	\$ 260,585	\$ 15,170	\$ 729,179

⁽¹⁾ Pursuant to SEC regulations, as adopted by the FDIC, regarding the valuation of equity awards, amounts in these columns represent the applicable full grant date fair values of stock awards in accordance with FASB ASC Topic 718, excluding the effect for forfeitures.

⁽²⁾ The components of all other compensation for 2023 are detailed below:

- (a) Mr. Yu, 401 (k) match of \$9,900.
- (b) Mr. Chen, automobile expenses of \$8,119, prorated for portion of personal use, club dues \$21,100 and 401(k) match of \$9,900.
- (c) Mr. Czajka, automobile allowance \$7,200 and 401(k) match of \$9,900.
- (d) Mr. Pi, automobile allowance \$7,200 and 401(k) match of \$9,900.
- (e) Mr. Hsu, automobile allowance \$7,200 and 401(k) match of \$9,900.

Potential Payments upon Termination or Change of Control

On November 17, 2005, we entered into a retention and severance agreement with Mr. Li Yu, our Chairman and Chief Executive Officer. On November 21, 2006, we entered into a retention and severance agreement with Mr. Nick Pi, who is now our Executive Vice President and Chief Credit Officer. We approved these agreements for the purpose of retaining key executives. Pursuant to the terms of the agreement, Mr. Yu is entitled to receive a severance payment in the event he is terminated in connection with a change of control, is terminated by us without “cause,” or voluntarily terminates based on a “good reason” (as such terms are defined in the agreements). Under the agreement, Mr. Yu is entitled to a lump sum equal to one and one half times his annual base salary plus one and one half times his targeted annual bonus amount (subject to bonus targets being satisfied), in both cases based on the greater of such amount at either the time immediately prior to the termination or in the year that the change of control event occurred. Mr. Pi is entitled to a lump sum based on the same formula equal to his annual base salary and target bonus. The agreements also provide for additional benefits including the vesting of stock options and the provision of certain employee medical and insurance benefits for a period of eighteen months in the case of Mr. Yu and twelve months in the case of Mr. Pi, following their respective termination. Our 2014 Equity Incentive Plan provide for full acceleration of vesting for our named executive officers upon termination of employment in connection with a change in control event. Other than those agreements, we are not a party to any other employment, change in control, non-competition or severance agreement for any named executive officer.

Potential Payments upon Termination of Employment
As of December 31, 2023

Name	Cash severance Arrangements/ Compensation (\$)	Accrued Vacation (\$)	Insurance Death Benefits (\$)	Acceleration of Vested Options (unamortized expense)(\$)	Total Termination Benefits (\$)
Li Yu					
Voluntary Termination of Retirement	\$ —	\$ 546,554	\$ —	\$ —	\$ 546,554
Involuntary Termination (other than For Cause)	3,320,487	546,554	—	—	3,867,041
Involuntary Termination (For Cause)	—	546,554	—	—	546,554
Termination in Connection with Change in Control	3,320,487	546,554	—	5,693,334	9,560,376
Death	—	546,554	4,279,025	—	4,825,579
Disability	—	546,554	—	—	546,554
Wellington Chen					
Voluntary Termination of Retirement	—	109,783	—	—	109,783
Involuntary Termination (other than For Cause)	—	109,783	—	—	109,783
Involuntary Termination (For Cause)	—	109,783	—	—	109,783
Termination in Connection with Change in Control	—	109,783	—	1,504,830	1,614,613
Death	—	109,783	—	—	109,783
Disability	—	109,783	—	—	109,783
Edward Czajka					
Voluntary Termination of Retirement	—	155,775	—	—	155,775
Involuntary Termination (other than For Cause)	—	155,775	—	—	155,775
Involuntary Termination (For Cause)	—	155,775	—	—	155,775
Termination in Connection with Change in Control	—	155,775	—	927,735	1,083,510
Death	—	155,775	—	—	155,775
Disability	—	155,775	—	—	155,775
Nick Pi					
Voluntary Termination of Retirement	—	115,511	—	—	115,511
Involuntary Termination (other than For Cause)	732,404	115,511	—	—	847,915
Involuntary Termination (For Cause)	—	115,511	—	—	115,511
Termination in Connection with Change in Control	732,404	115,511	—	854,685	1,702,600
Death	—	115,511	1,679,235	—	1,794,746
Disability	—	115,511	—	—	115,511
Johnny Hsu					
Voluntary Termination or Retirement	—	74,706	—	—	74,706

Name	Cash severance Arrangements/ Compensation (\$)	Accrued Vacation (\$)	Insurance Death Benefits (\$)	Acceleration of Vested Options (unamortized expense)(\$)	Total Termination Benefits (\$)
Involuntary Termination (other than For Cause)	—	74,706	—	—	74,706
Involuntary Termination (For Cause)	—	74,706	—	—	74,706
Termination in Connection with Change in Control	—	74,706	—	854,685	929,391
Death	—	74,706	—	—	74,706
Disability	—	74,706	—	—	74,706

Securities Authorized for Issuance under Equity Compensation Plans

The following table summarizes information as of December 31, 2023, relating to our equity compensation plans pursuant to which grants of options, restricted stock, or other rights to acquire shares may be granted from time to time.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column (a) (c)
Equity compensation plans approved by security holders - Stock Options	—	\$ —	1,307,494
Equity compensation plans approved by security holders - Deferred Compensation (1)	—	\$ —	—
Equity compensation plans not approved by security holders	—	—	—
Total.....	—	\$ —	1,307,494

CEO Pay Ratio Disclosure

Pursuant to SEC Regulation S-K, Item 402(u), we are providing the following information about the ratio of our CEO's total annual compensation to the total annual compensation of the median employee within the Bank. The following paragraphs describe our methodology and the resulting pay ratio for the year ended December 31, 2023.

- We identified our median employee as of December 31, 2023, at which time our total employee population was 302, including part-time employees. We employed no seasonal employees nor did we have any employees residing outside the United States and therefore we did not exclude anyone based on the foreign exemption rules.
- Under relevant rules, we were required to identify the median employee by use of “consistently applied compensation measures” (“CACM”). We chose a CACM that uses total annual cash and equity compensation, gathered from our payroll data.
- After identifying the median employee, we added together all of the elements of such employee's compensation for 2023 on the same basis as we used for determining the total compensation of our CEO for 2023 as set forth in the Summary Compensation Table, resulting in total annual compensation of our median employee of \$98,290.

Our CEO's total annual compensation for 2023 was \$4,719,372, resulting in a pay ratio of our CEO's total annual compensation to the total annual compensation of the Bank's median employee of 48:1.

We have also entered into indemnification agreements with each of our directors. The agreements indemnify each director in third-party proceedings, in which the director is made a party to or threatened to be made a party to, or otherwise involved in any proceeding, by reason of the fact that the director is or was our agent. We also indemnify each director that is made party to, or threatened to be made party to, or otherwise involved in, any proceeding which is an action by or in the right of us to procure a judgment in our favor by reason of the fact that the director is or was our agent.

Grants of 2023 Plan-Based Equity Awards Table

Name	Grant Date	Estimated Possible Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#) (1)	Grant Date Fair Value of Stock and Option Awards (\$)
		Threshold (#)	Target (#)	Maximum (#)		
Li Yu	2/2/23	8,750	17,500	30,625	17,500	\$ 2,611,700 ⁽²⁾
Wellington Chen	2/2/23	N/A	N/A	N/A	7,000	\$ 522,340 ⁽²⁾
Edward Czajka	2/2/23	N/A	N/A	N/A	4,200	\$ 313,404 ⁽²⁾
Nick Pi	2/2/23	N/A	N/A	N/A	4,000	\$ 298,480 ⁽²⁾
Johnny Hsu	2/2/23	N/A	N/A	N/A	4,000	\$ 298,480 ⁽²⁾

(1) These represent awards made in 2023 for the fiscal year 2022.

(2) Fair value for PRSUs and RSU's are calculated using target shares grant date closing price on January 1, 2023.

Grants of 2023 Plan-Based Non-Equity Awards Table

Name	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards		
	Threshold (\$)	Target (\$)	Maximum (\$)
Li Yu	505,000	1,010,000	1,515,000
Wellington Chen	260,000	520,000	780,000
Edward Czajka	161,350	322,700	484,050
Nick Pi	146,860	293,721	440,581
Johnny Hsu	122,500	245,000	367,500

Grants of 2024 Plan-Based Equity Awards Table

Name	Grant Date	Estimated Possible Payouts Under Equity Incentive Plan Awards(1)			All Other Stock Awards: Number of Shares of Stock or Units (#)	Grant Date Fair Value of Stock and Option Awards (\$)
		Threshold (#)	Target (#)	Maximum (#)		
Li Yu	2/6/24	8,500	17,000	29,750	17,000	\$ 2,483,700 ⁽²⁾
Wellington Chen	2/6/24	N/A	N/A	N/A	7,000	\$ 533,265 ⁽³⁾
Edward Czajka	2/6/24	N/A	N/A	N/A	4,200	\$ 328,725 ⁽³⁾
Nick Pi	2/6/24	N/A	N/A	N/A	4,000	\$ 314,115 ⁽³⁾
Johnny Hsu	2/6/24	N/A	N/A	N/A	4,000	\$ 314,115 ⁽³⁾

(1) Represents awards made in 2024 for the fiscal year 2023.

(2) Fair value for PRSUs and RSU's are calculated using target shares grant date closing price on January 1, 2024.

The following table lists the outstanding equity awards at December 31, 2023.

Outstanding Equity Awards at December 31, 2023

		Stock Awards			
		Time-based		Performance-based	
Name	Grant date	Number of Units of Stock That Have Not Vested	Market Value of Units That Have Not Vested (1)	Number of Unearned Units That Have Not Vested (2)	Market Value of Unearned Units That Have Not Vested (3)
Li Yu	02/10/22	3,750	\$ 273,938	6,563	\$ 479,391
	02/02/23	8,750	639,188	15,313	1,118,578
	02/14/24	17,000	1,241,850	17,000	1,241,850
Wellington Chen	02/10/22	1,575	115,054		
	02/02/23	3,500	255,675		
	02/06/24	7,300	533,265		
Edward Czajka	02/10/22	1,000	73,050		
	02/02/23	2,100	153,405		
	02/06/24	4,500	328,725		
Nick Pi	02/10/22	850	62,093		
	02/02/23	2,000	146,100		
	02/06/24	4,300	314,115		
Johnny Hsu	02/10/22	850	62,093		
	02/02/23	2,000	146,100		
	02/06/24	4,300	314,115		

(1) The price used for valuing unvested stock award is the closing price of our common stock on January 1, 2024.

(2) Shares issuable upon vesting of PRSUs (assuming vesting at 100% of target).

(3) Aggregate market value of PRSUs that have not vested, using the closing price of our common stock on January 1, 2024 (assuming vesting at 100% of target).

Stock Vested during the 2023 Fiscal Year

	Stock Awards	
	Number of Shares Acquired on Vesting	Value Realized on Vesting (\$) ⁽¹⁾
Name	(# Shares)	
Li Yu	49,500	\$ 3,615,975
Wellington Chen	7,000	511,350
Edward Czajka	4,200	306,810
Nick Pi	3,500	255,675
Johnny Hsu	3,600	262,980
⁽¹⁾ The amount represents the product of the number of shares vested and the closing price of PFBC's common stock on the vesting date.		

Pay Versus Performance

In accordance with rules adopted by the Securities and Exchange Commission (“SEC”) pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, we provide the following disclosure regarding executive “compensation actually paid” (“CAP”, as calculated in accordance with the SEC rules) and certain Company performance measures for the fiscal years listed below. For information regarding the Company’s pay-for-performance philosophy and how the Company aligns executive pay with performance, refer to our Compensation Discussion & Analysis (“CD&A”).

Year	Summary Compensation Table Total for CEO	Compensation Actually Paid to CEO	Average Summary Compensation Table Total for non-PEO NEO's	Average Compensation Actually Paid to non-PEO NEO's	Value of Initial \$100 Investment Based on:			Company Selected Measure
					Total Shareholder Return	Peer Group Total Shareholder Return (1)	Net Income (In \$000's)	
2023	\$ 4,719,372	\$ 4,665,992	\$ 1,244,174	\$ 1,190,362	\$ 157.44	\$ 112.03	\$ 150,040	\$ 10.52
2022	\$ 4,799,183	\$ 4,873,103	\$ 1,154,228	\$ 1,166,403	\$ 134.25	\$ 87.75	\$ 128,845	\$ 8.70
2021	\$ 4,557,853	\$ 5,294,645	\$ 1,029,497	\$ 1,144,786	\$ 126.08	\$ 110.87	\$ 95,240	\$ 6.41
(1) Peer group used is the S&P BMI Bank Index								
The valuation assumptions used to calculate equity award fair values did not materially differ from those disclosed at time of grant								

Adjustments from Summary Compensation Table total for PEO	2023	2022	2021
Deduction for change in actuarial present values reported under the "Change in Pension Value and Non-qualified Deferred Compensation Earnings" column in the Summary Compensation Table	\$ 4,719,372	\$ 4,799,183	\$ 4,557,853
Increase for service cost of pension plans			
Increase/deduction for prior service cost of pension plans			
Deduction for amounts reported under the "Stock Awards" and "Option Awards" columns in the Summary Compensation Table	-2,483,700	-2,611,700	-2,323,538
Increase based on fair value of awards granted during year that remain unvested as of year-end, determined as of year-end	2,483,700	2,611,700	2,238,600
Increase based on fair value of awards granted during year that vested during year, determined as of vesting date			
Increase/deduction for change in fair value from prior year-end to current year-end of awards granted prior to year that were outstanding and unvested as of year-end	-53,380	73,920	505,680
Increase/deduction for change in fair value from prior year-end to vesting date of awards granted prior to year that vested during year	74,745	177,870	1,289,860
Deduction of fair value of awards granted prior to year that were forfeited during year			
Increase based on incremental value of awards modified during year			
Increase based on dividends or other earnings paid during year prior to vesting date of award			
Total Adjustments	\$ 4,740,737	\$ 5,050,973	\$ 6,268,455
Adjustments from Average Summary Compensation Table total for non-PEO NEOs	2023	2022	2021
Deduction for change in actuarial present values reported under the "Change in Pension Value and Non-qualified Deferred Compensation Earnings" column in the Summary Compensation Table	\$ 1,244,174	1,154,228	1,029,497
Increase for service cost of pension plans			
Increase/deduction for prior service cost of pension plans			
Deduction for amounts reported under the "Stock Awards" and "Option Awards" columns in the Summary Compensation Table	-372,555	-376,859	-351,695
Increase based on fair value of awards granted during year that remain unvested as of year-end, determined as of year-end	372,555	378,075	340,765
Increase based on fair value of awards granted during year that vested during year, determined as of vesting date			
Increase/deduction for change in fair value from prior year-end to current year-end of awards granted prior to year that were outstanding and unvested as of year-end	-53,812	10,960	81,383
Increase/deduction for change in fair value from prior year-end to vesting date of awards granted prior to year that vested during year	6,908	15,323	99,671
Deduction of fair value of awards granted prior to year that were forfeited during year			
Increase based on incremental value of awards modified during year			
Increase based on dividends or other earnings paid during year prior to vesting date of award			
Total Adjustments	\$ 1,197,270	\$ 1,181,727	\$ 1,199,621

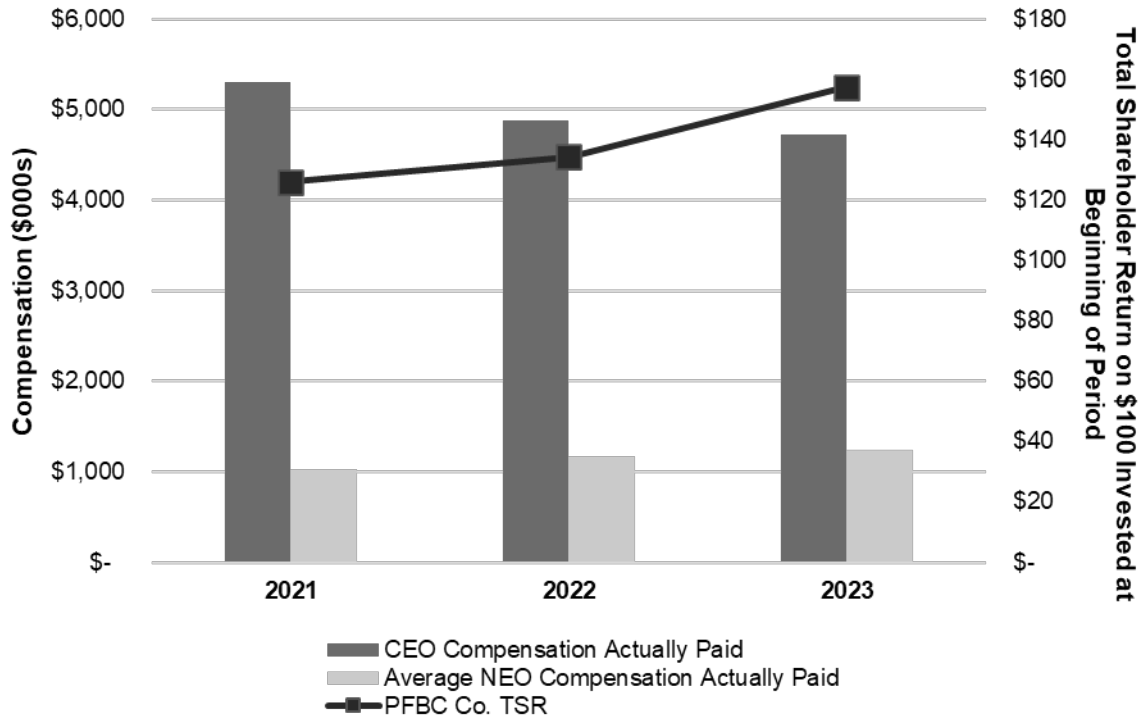
In the Bank's assessment, the most important financial performance measures used to link compensation actually paid to our NEO's, for the most recently completed fiscal year, to the Bank's performance were:

- Diluted earnings per share
- Loan growth (Ex-PPP)
- Deposit growth

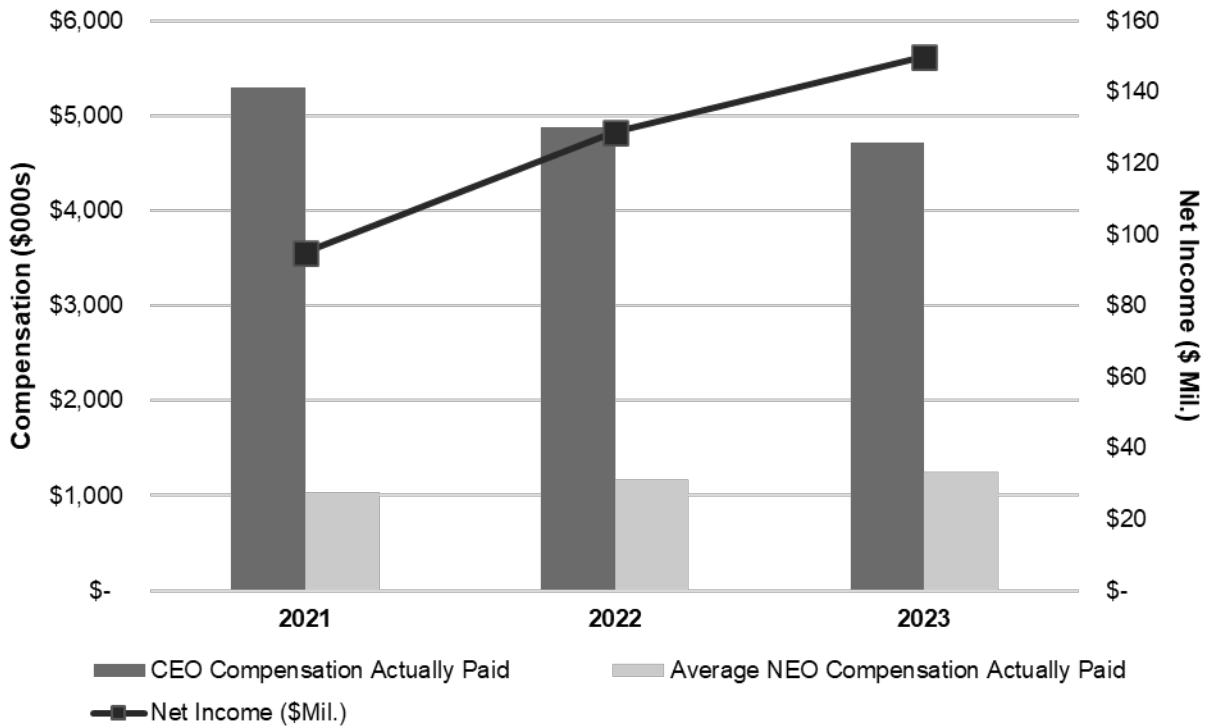
The illustrations below provide graphical descriptions of the relationships between the following:

- CAP and the Bank's cumulative TSR
- CAP and the Bank's Net Income
- Peer Group TSR to the Bank's TSR

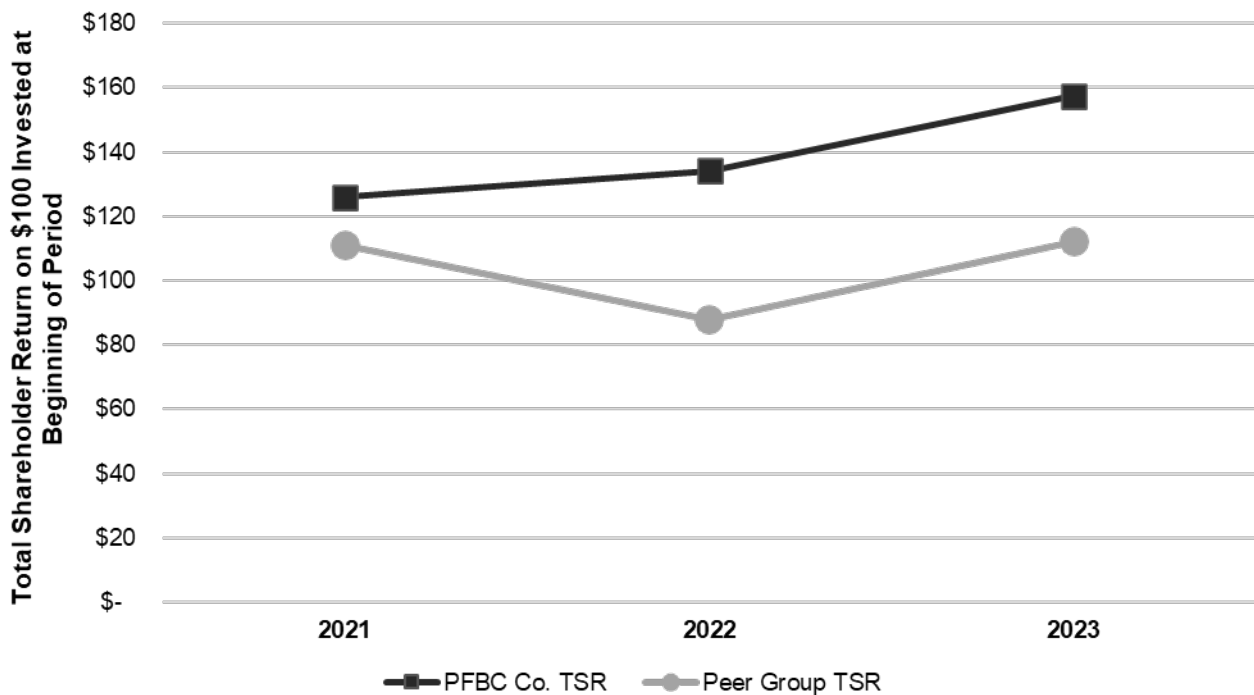
CAP vs. TSR



CAP vs. Net Income



Peer Group vs. PFBC TSR



THE PROPOSAL APPROVAL OF THE PREFERRED BANK 2024 EQUITY INCENTIVE PLAN

The Board of Directors is seeking approval from the shareholders of the Preferred Bank 2024 Equity Incentive Plan, (the “2024 Plan”), which is attached as Appendix I to this proxy statement.

Background

On, April 22, 2024, the Company filed its Definitive Proxy Statement (the “**Proxy Statement**”) for its Annual Meeting of Shareholders held on May 30, 2024 (the “**Annual Meeting**”). One of the proposals in the Proxy Statement was a proposal to extend the term of the Preferred Bank 2014 Equity Incentive Plan (the “**2014 Plan**”) without any additional amendment to the 2014 Plan. Prior to the Annual Meeting, Institutional Shareholder Services (“**ISS**”), a proxy advisory firm, recommended a vote “Against” the proposal to extend the 2014 Plan based upon a number of factors related to the 2014 Plan (the “**ISS Recommendation**”) it considered to be negative to the shareholders. Immediately following publication of the ISS Recommendation, certain institutional investors voted “Against” the extension of the 2014 Plan, and the proposal to extend the 2014 Plan did not pass.

On July 16, 2024, the Board approved and adopted, subject to approval by our shareholders, the Preferred Bank 2024 Equity Incentive Plan, or the “**2024 Plan**.” The 2024 Plan continues the important equity based incentives to the Company’s officers, directors, employees, and consultants that have contributed to the Company’s success to date. The 2024 Plan also addresses the factors identified by ISS. Below is a chart identifying the factors ISS identified with respect to the 2014 Plan in support of its negative recommendation and how the 2024 Plan addresses them. Reference should be made to the 2014 Plan and the 2024 Plan attached hereto as Exhibit A and Exhibit B, respectively, for the specific provisions.

	ISS Key Factors	2014 Equity Incentive Plan	2024 Equity Incentive Plan
1.	The Plan ¹ permits cash buyout of awards without shareholder approval (overriding factor).	The 2014 Plan permits the Administrator ² of the 2014 Plan to buyout awards for payment in cash or shares on the terms and conditions the Administrator establishes. <i>See Sections 4.5 and 10.11 of the 2014 Plan.</i>	No such buyout is permitted in the 2024 Plan.
2.	The Plan cost is excessive.	The 2014 Plan does not specify any limit on the amount or type of Award that may be granted.	The total number of Shares available for grant under the 2024 Plan is limited to 670,000 Shares despite that 2,500,000 Shares were available for grant under the 2014 Plan. Additionally, Awards granted under the 2024 Plan have a minimum “time-based” vesting period of not less than one year. <i>See Sections 4.1, 5.2, 6.2, 7.4, and 8.2 of the 2024 Plan.</i>
3.	The estimated duration of available and proposed shares exceeds six years.	The 2014 Plan does not have any limit on how fast the 2014 Plan can burn through the pool.	Based on the Company’s historical usage of one percent (1%) per year, the number of Shares available for issuance have been reduced from 2,500,000 with the intention that the duration of available and proposed shares will not exceed six years.
4.	The disclosure of change-in-control (“CIC”) vesting treatment is incomplete (or is otherwise considered discretionary).	The 2014 Plan permits the Administrator to grant Awards to Participants and determine the terms and conditions of the Awards, including the circumstances under which Awards become exercisable or vested or are forfeited or expire. <i>See Section 3.1(c) of the 2014 Plan.</i>	The 2024 Plan states any amendment of an outstanding Award to accelerate vesting requires the unanimous approval of the Board. <i>See Section 3.2 of the 2024 Plan.</i>
5.	The Plan permits liberal recycling of shares.	The 2014 Plan permits any Shares subject to a cancelled, terminated, expired or lapsed Award to be available for future Awards. <i>See Section 4.2 of the 2014 Plan.</i>	The 2024 Plan only permits Shares subject to a forfeited Award ³ to be available as the subject of future Awards. Shares underlying an Award that lapses unissued as a result of a cashless exercise of an Option or Stock Appreciation Right Award or from the net issuance of Shares to settle tax withholdings will lapse and will NOT become available for future Awards under the 2024 Plan. <i>See Section 4.2 of the 2024 Plan.</i>
6.	The Plan allows broad discretion to accelerate vesting.	The 2014 Plan permits the Administrator to grant Awards to Participants and determine the terms and conditions of the Awards, including the circumstances under which Awards become exercisable or vested or are forfeited or expire. <i>See Section 3.1(c) of the 2014 Plan.</i>	The 2024 Plan states any amendment of an outstanding Award to accelerate vesting requires the unanimous approval of the Board. <i>See Section 3.2 of the 2024 Plan.</i>

The Board believes the 2024 Plan, as was the 2014 Plan, is necessary to give the Bank the continued ability to attract and retain qualified officers, employees, consultants and non-employee directors with appropriate equity-based awards, motivate high levels of performance, recognize employee contributions to our success and align the interests of plan participants with those of our shareholders. The Board believes that the ability to grant equity-based awards is needed for our company to remain competitive for qualified employees, consultants and non-employee directors, particularly against similar companies vying for a limited talent pool. The 2024 Plan contains a number of provisions that the Board believes are consistent with the interests of shareholders and sound corporate governance, which include:

- *No Stock Option Repricings.* The 2024 Plan prohibits the repricing of stock options and stock appreciation rights without the approval of the shareholders. The provision applies to both direct repricings – lowering the exercise price of a stock option – and indirect repricings – canceling an outstanding stock option and granting a replacement stock option with a lower exercise price.
- *No Annual “Evergreen” Provision.* The 2024 Plan provides a fixed allocation of shares, thereby requiring shareholder approval of any additional allocation of shares.

¹ References to the Plan refer to the 2014 Plan.

² The Board of Directors’ Compensation Committee has served as the Administrator of the 2014 Plan and will continue to serve as Administrator of the 2024 Plan.

³ An Award will be forfeited if an officer, employee, consultant or non-employee director is terminated and such Award has not yet vested.

- *No Discounted Stock Option or Stock Appreciation Rights.* The 2024 Plan prohibits the grant of a stock option or stock appreciation right with an exercise price of less than the fair market value of the closing price of our common stock on the date the stock option is granted.
- *Independent Committee.* The 2024 Plan will be administered by the Compensation Committee of the Board, which consists of “outside directors” within the meaning of Section 162(m) of the Internal Revenue Code, Section 16b-3 of the Securities Exchange Act of 1934 and under the applicable rules of Nasdaq.

The 2024 Plan reserves six hundred and seventy thousand (670,000) shares of our common stock for issuance pursuant to awards granted under the 2024 Plan. The 670,000 shares reserved for issuance under the 2024 Plan will serve as the underlying value for all equity awards under the 2024 Plan. The provisions of the 2024 Plan are summarized below. There has been no determination with respect to future awards under the 2024 Plan as of the date of this Proxy Statement.

**THE BOARD OF DIRECTORS RECOMMENDS THAT
YOU SUBMIT YOUR VOTE “FOR” THE PROPOSAL**

Summary of the 2024 Equity Incentive Plan

General

The 2024 Plan provides for grants of stock options, stock appreciation rights (SARs), stock awards and restricted stock units, all of which are sometimes referred to individually or collectively as Awards, to employees, consultants, non-employee directors of our company and its subsidiaries. Stock options may be either incentive stock options (ISOs), as defined in Section 422 of the Internal Revenue Code, or non-qualified stock options (NQSOs).

Plan Administration; Amendment and Termination

The Board and/or one or more of its committees shall administer the 2024 Plan in accordance with applicable law, referred to as the Administrator. The Administrator may, amend, suspend or terminate any portion of the 2024 Plan for any reason, but must obtain shareholder consent for any material amendments to the 2024 Plan, or the consent of affected plan participants if any such action alters or impairs any obligations regarding Awards that have been granted. The 2024 Plan terminates in 2034. However, such termination will not affect Awards granted under the 2024 Plan prior to termination.

Reversion of Shares to the 2024 Plan

Any shares underlying a forfeited Award shall become available for future Awards under the 2024 Plan. An Award will be forfeited if an officer, employee, consultant or non-employee director is terminated and such Award has not yet vested. Shares awarded and delivered under the 2024 Plan may be authorized but unissued, or reacquired shares.

Eligibility for Awards

Employees, consultants and non-employee directors of our company or its subsidiaries may be granted Awards under the 2024 Plan. The Administrator determines which individuals will receive Awards, as well as the number and composition of each Award. Awards under the 2024 Plan may consist of a single type or any combination of the types of Awards permissible under the 2024 Plan as determined by the Administrator, or by the full Board in the case of Awards to non-employee directors. These decisions may be based on various factors, including a participant’s duties and responsibilities, the value of the participant’s past services, his/her potential contributions to our success, and other factors.

Exercise Price Limitations

The Administrator will determine the exercise price for the shares underlying each Award on the date the Award is granted. The exercise price for shares under an ISO may not be less than 100% of fair market value on the date the Award is granted under Section 422 of the Internal Revenue Code, or the Code. Similarly, under the terms of the 2024 Plan, the exercise price for SARs and NQSOs may not be less than 100% of fair market value on the date of grant. There is no minimum exercise price prescribed for stock awards and restricted stock units awarded under the 2024 Plan.

No Material Amendments or Re-Pricing Without Shareholder Approval

Except for adjustments upon changes in capitalization, dissolution, merger or asset sale, the 2024 Plan prohibits our company from making any material amendments to the 2024 Plan or decreasing the exercise price or purchase price of any outstanding Award, including by means of cancellation or re-grant, without shareholder approval.

Award Exercise; Payment of Exercise Price

The Administrator will determine when Awards become exercisable. However, no Award may have a term longer than ten years from the date of grant unless otherwise approved by our shareholders, and no Award may be exercised after expiration of its term. Payment for any shares issued upon exercise of an Award shall be specified in each participant's Award agreement, and may be made by cash, check or other means specified in the 2024 Plan.

Tax Withholding

We shall have the right to deduct or withhold or require a participant to remit to us an amount sufficient to satisfy federal, state, local and any applicable foreign taxes (including FICA obligations, if applicable) required to be withheld with respect to the grant, exercise or vesting of any Award.

Effect of Termination, Death, or Disability

If a participant's employment, consulting arrangement, or service as a non-employee director terminates for any reason, the vesting of an Award generally will stop as of the effective termination date. Participants generally have three months from their termination date to exercise vested unexercised options and SARs before they expire. Longer post-termination exercise periods apply in the event the termination of employment or cessation of service results from death or disability. If a participant is dismissed for cause, the right to exercise shall terminate five business days following the participant's receipt of notice from us of the participant's termination.

Non-Transferability of Awards

Unless otherwise determined by the Administrator, Awards granted under the 2024 Plan are not transferable other than by will or the laws of descent and distribution, and may be exercised by the participant only during the participant's lifetime.

Stock Appreciation Rights

Under the 2024 Plan, SARs may be settled in shares or cash and must be granted with an exercise price not less than 100% of fair market value on the date of grant. Upon exercise of a SAR, a participant is entitled to receive cash or a number of shares equivalent in value to the difference between the fair market value on the exercise date and the exercise price of the SAR. For example, assume a participant is granted 100 SARs with an exercise price of \$10 and assume the SARs are later exercised when the fair market value of the underlying shares is \$20 per share. At exercise, the participant is entitled to receive 50 shares $[(\$20 - \$10) \times 100] / \$20$, or \$1,000 in cash (50 shares x \$20).

Stock awards

The 2024 Plan also permits the Company to grant stock awards. The Administrator has discretion to establish periods of restriction during which shares awarded remain subject to forfeiture or the Company's right to repurchase if the participant's employment terminates for any reason (including death or disability). Restrictions may be based on the passage of time, the achievement of specific performance objectives, or other measures as determined by the Administrator in its discretion. Stock Awards may be granted for past services with no restrictions. During periods of restriction, a participant has the right to vote his/her restricted stock and to receive distributions and dividends, if any, but may not sell or transfer any such shares.

Restricted Stock Units

The 2024 Plan also permits the Company to grant restricted stock units that are payable in Company shares or in cash. Each restricted stock unit is equivalent in value to one share of the Company's common stock. Depending on the number of restricted stock units that become vested at the end of the performance period, the equivalent number of shares are payable to the participant, or the equivalent value in cash. The restricted stock units may be vested upon the attainment of performance goals or based on continued service.

Changes in Capitalization; Change of Control

The 2024 Plan provides for exercise price and quantity adjustments if we declare a stock dividend or stock split. Also, vesting or restriction periods may be accelerated if we merge with another entity that does not either assume the outstanding Awards or substitute equivalent Awards. In such case, vesting will be accelerated ten days prior to the consummation of the Change in Control and the Award will terminate and no longer be exercisable upon consummation. We have employment arrangements with certain executive officers that provide for accelerated vesting of stock options.

Participation in the 2024 Plan

Except as otherwise provided in the 2024 Plan, the grant of Awards is subject to the discretion of the Administrator. No determinations have been made with respect to future awards under the 2024 Plan.

U.S. Federal Income Tax Consequences

Option Grants

Options granted under the 2024 Plan may be either ISOs, which are intended to satisfy the requirements of Section 422 of the Code, or NQSOs, which are not intended to meet those requirements. The Federal income tax treatment for NQSOs and ISOs is summarized below.

Non-Qualified Stock Options

No taxable income is recognized by an optionee upon the grant of an NQSO. Generally, the optionee will recognize ordinary income in the year in which the option is exercised. The amount of ordinary income will equal to the excess of the fair market value of the purchased shares on the exercise date over the exercise price paid for the shares. Our company and the optionee are required to satisfy the tax withholding requirements applicable to that income, unless the optionee is a non-employee director or consultant, where in such case tax withholding is not required. We will be entitled to an income tax deduction equal to the amount of ordinary income recognized by the optionee with respect to exercised NQSOs.

Incentive Stock Options

No taxable income is recognized by an optionee upon the grant of an ISO. Generally, the optionee will not recognize ordinary income in the year in which the option is exercised, although the optionee's gain from exercise may be subject to alternative minimum tax. If the optionee sells the underlying shares acquired from the option within two years after the option grant date or within one year of the option exercise date, then the sale is treated as a disqualifying disposition and the optionee will be taxed in the year of disposition on the gain at exercise, but not exceeding the gain from disposition as ordinary income and the balance of the gain from disposition, if any, as short-term or long-term capital gain. We will be entitled to an income tax deduction that equals the amount of the optionee's compensatory ordinary income. If the optionee does not make a disqualifying disposition, then the optionee will not recognize ordinary income and the entire gain will be taxes as long-term capital gain and we will not be entitled to a tax deduction.

Stock Appreciation Rights

No taxable income is recognized by an optionee upon the grant of a SAR. The participant will recognize ordinary income in the year in which the SAR is exercised. The amount of ordinary income will be fair market value of the shares received or the cash payment received. Our company and the participant are required to satisfy the applicable tax withholding requirements, unless the participant is a non-employee director, where in such case tax withholding is not required. We will be entitled to an income tax deduction equal to the amount of ordinary income recognized by the participant with respect to exercised SARs.

Stock Awards

The tax principles applicable to the issuance of shares under the 2024 Plan will be substantially the same as those summarized above for the exercise of non-qualified stock options in that they are both governed by Section 83 of the Internal Revenue Code. When shares are granted with no restrictions, the participant will have ordinary income equal to the difference between the fair market value of the shares on the grant date and the amount paid for the shares, if any. If shares are granted with restrictions, such income tax treatment applies on the date the restrictions lapse (the "vesting" date) based on the fair market

value of the shares on the vesting date, unless the participant made an “83(b) election” within 30 days of the date of grant to include as ordinary income in the year of the grant, an amount equal to the difference between the fair market value of the granted shares on the grant date and any amount paid for the shares. If the Section 83(b) election is made, the participant will not recognize any additional compensation income when the restriction lapses, but may have capital gain income or loss upon sale of the shares. The Company will be entitled to an income tax deduction equal to the ordinary income recognized by the participant in the year in which the participant recognizes such income.

Restricted Stock Units

Generally, a plan participant who is granted restricted stock units will recognize ordinary income in the year payment occurs. The income recognized will generally be equal to the fair market value of the shares received or to the cash payment received. The Company will generally be entitled to an income tax deduction equal to the income recognized by the participant on the payment date for the taxable year in which the ordinary income is recognized by the participant.

Deductibility of Executive Compensation

We anticipate that any compensation deemed paid by us in connection with the exercise of both ISOs and NQSOs granted with exercise prices equal to the fair market value of the shares on the grant date will not be subject to the “Section 162(m) \$1 million limitation” per covered individual on the deductibility of the compensation paid to our executive officers.

Shareholder Approval

We are seeking shareholder approval of the 2024 Plan, including the shares reserved under the 2024 Plan. The 2024 Plan provides a meaningful opportunity for employees, consultants and non-employee directors to acquire a proprietary interest in our company, thereby encouraging those individuals to remain in our service and more closely align their interests with those of the shareholders. The Board believes that it is in our best interest to have an equity incentive program. A copy of the 2024 Plan is attached hereto as Exhibit A.

Required Vote

The affirmative vote of a majority of the shares of our Common Stock outstanding as of the Record Date is needed to approve the 2024 Plan.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE “FOR” THE PROPOSAL.

OTHER BUSINESS

We know of no other business which will be presented for consideration at our Special Meeting other than as stated in the notice of Special Meeting. If, however, other matters are properly brought before the meeting, it is the intention of the persons named as proxies on the enclosed proxy card to vote the shares represented thereby in accordance with their best judgment and in their discretion, and authority to do so is included in the proxy.

SHAREHOLDER PROPOSALS FOR 2025 ANNUAL MEETING OF SHAREHOLDERS

Proposals received from shareholders in accordance with Rule 14a-8 under the Exchange Act are given careful consideration by us. Shareholder proposals are eligible for consideration for inclusion in the Proxy Statement for the 2025 annual meeting of shareholders if we receive them on or before December 27, 2024. Shareholder proposals must be directed to the Corporate Secretary, Preferred Bank, 601 S. Figueroa Street, 48th Floor, Los Angeles, California 90017.

A shareholder otherwise desiring to bring a proposal before the 2025 annual meeting of shareholders (including generally any proposal relating to the nomination of a director to be elected to our Board of Directors) must comply with the then-current advance notice and information requirements in our Bylaws and deliver the proposal to our Corporate Secretary at the address set forth above on or after January 26, 2025 and on or before 5:00 p.m., Pacific Time, on February 25, 2025 (60 to 90 days prior to the first anniversary of the mailing date of the notice for this year’s annual meeting) in order for such proposal to be considered timely.

WHERE YOU CAN FIND MORE INFORMATION

In accordance with Sections 12, 13 and 14 of the Exchange Act and as a bank that is not a member of the Federal Reserve System, we file certain reports, proxy materials, information statements and other information with the FDIC, copies of which can be inspected and copied at the public reference facilities maintained by the FDIC, at the Public Reference Section, Room F-6043, 550 17th Street, N.W., Washington, DC 20429. Requests for copies may be made by telephone at (202) 898-8193 or by fax at (202) 898-3909. Certain financial information filed by us with the FDIC is also available electronically at the FDIC's website at <http://www.fdic.gov>. Our FDIC filings are available to the public at our website at www.preferredbank.com. Click on the *About Us* tab, then the *Investor Relations* tab and then click on the *Company Filings* tab. Other than the annual, quarterly, and current reports, proxy statements and other information we file with the FDIC, the information on our website is not part of this Proxy Statement.

You should review the information and exhibits included in our filings with the FDIC for further information about us, including but not limited to our business, our current officers and directors, our officers' and directors' compensation and beneficial ownership of our shares, our regulation and supervision, and dividend policy. Statements in this Proxy Statement concerning any document we filed with the FDIC are not intended to be comprehensive and are qualified by reference to such documents. Any requests for copies of these filings, at no cost, should be submitted or directed to:

Preferred Bank
601 S. Figueroa Street, 48th Floor
Los Angeles, California 90017
(213) 891-1188

Attention: Edward J. Czajka,
Chief Financial Officer

YOUR VOTE AT THIS SPECIAL MEETING IS IMPORTANT, NO MATTER HOW MANY OR HOW FEW SHARES YOU OWN. PLEASE SIGN AND DATE THE ENCLOSED PROXY CARD AND RETURN IT IN THE ENCLOSED POSTAGE-PAID ENVELOPE PROMPTLY.

By Order of the Board of Directors

A handwritten signature in black ink, appearing to read 'Li Yu', with a long horizontal flourish extending to the right.

Li Yu
Corporate Secretary

Exhibit A
2014 Plan

PREFERRED BANK
2014 EQUITY INCENTIVE PLAN

Effective May 20, 2014

PREFERRED BANK hereby adopts in its entirety the Preferred Bank 2014 Equity Incentive ("Plan"), as of April 15, 2014 ("Plan Adoption Date"), subject to approval by the shareholders of Preferred Bank to be obtained within twelve (12) months from the Plan Adoption Date. Unless otherwise defined, terms with initial capital letters are defined in Section 2 below.

SECTION 1
BACKGROUND AND PURPOSE

- 1.1 **Background.** The Plan permits the grant of Nonqualified Stock Options, Incentive Stock Options, Stock Appreciation Rights (SARs), Performance Shares, Performance Units, Deferred Stock Units and Restricted Stock.
- 1.2 **Purpose of the Plan.** The Plan is intended to attract, motivate and retain the following individuals: (a) employees of the Company and its Affiliates; (b) consultants who provide significant services to the Company and its Affiliates and (c) directors of the Company who are employees of neither the Company nor any Affiliate. The Plan is also designed to encourage stock ownership by such individuals, thereby aligning their interests with those of the Company's shareholders.

SECTION 2
DEFINITIONS

The following words and phrases shall have the following meanings unless a different meaning is plainly required by the context:

- 2.1 "**1934 Act**" means the Securities Exchange Act of 1934, as amended. Reference to a specific section of the 1934 Act shall include such section, any valid rules or regulations promulgated under such section, and any comparable provisions of any future legislation, rules or regulations amending, supplementing or superseding any such section, rule or regulation.
- 2.2 "**Administrator**" means the Compensation Committee of the Board, unless the Board appoints itself and/or one or more Committees, and/or one or more executive officers of the Company designated by the Board to administer the Plan or specific portions thereof; provided, however, that Awards may not be made by executive officers of the Company; and provided, further that any Awards or determinations that under Section 162(m) may only be made by "outside directors" (as that term is defined under Treasury Regulation Section 1.162-27(e)(3)) shall only be made by such outside directors.
- 2.3 "**Affiliate**" means any corporation or any other entity (including, but not limited to, Subsidiaries, partnerships and joint ventures) controlling, controlled by, or under common control with the Company.
- 2.4 "**Applicable Law**" means the legal requirements relating to the administration of Options, SARs, Performance Shares, Performance Units, Deferred Stock Units and Restricted Stock and similar incentive plans under applicable state corporate and securities laws, the Code, and applicable rules and regulations promulgated by the NASDAQ or the requirements of any other stock exchange or quotation system upon which the Shares may then be listed or quoted.
- 2.5 "**Award**" means, individually or collectively, a grant under the Plan of Nonqualified Stock Options, Incentive Stock Options, SARs, Restricted Stock, Performance Shares, Performance Units and/or Deferred Stock Units.
- 2.6 "**Award Agreement**" means the written agreement setting forth the terms and provisions applicable to each Award granted under the Plan, including the Grant Date.

2.7 “Board” or “Board of Directors” means the Board of Directors of the Company.

2.8 “Change in Control” means the occurrence of any of the following events:

- (a) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becomes the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities;
- (b) The consummation of the sale or disposition by the Company of all or substantially all of the Company's assets;
- (c) The consummation of a liquidation or dissolution of the Company;
- (d) A change in the composition of the Board occurring within a two-year period, as a result of which fewer than a majority of the directors are Incumbent Directors. "Incumbent Directors" means directors who either (A) are Directors as of the Plan Effective Date, or (B) are elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the Directors at the time of such election or nomination (but will not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of Directors); or
- (e) The consummation of a merger or consolidation of the Company with any other corporation or other business entity, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.

Notwithstanding the foregoing, with respect to Deferred Stock Units or any other Award constituting nonqualified deferred compensation subject to the provisions of Code Section 409A, a change in control will not be deemed to have occurred unless the event also satisfies the definition of a change in the ownership or effective control of a corporation or a change in the ownership of a substantial portion of the assets of a corporation under Code Section 409A and Treasury Regulation Section 1.409A-3(i)(5).

2.9 “Code” means the Internal Revenue Code of 1986, as amended. Reference to a specific section of the Code or regulation thereunder shall include such section or regulation, any valid regulation promulgated under such section, and any comparable provision of any future legislation or regulation amending, supplementing or superseding such section or regulation.

2.10 “Committee” means any committee appointed by the Board of Directors to administer the Plan or any portion thereof that (i) is composed entirely of Independent Directors, and (ii) has a published committee charter as required under applicable NASDAQ rules.

2.11 “Company” means Preferred Bank, a California corporation, or any successor thereto. With respect to the definitions of the Performance Goals, the Administrator may determine that "Company" means Preferred Bank and its consolidated Subsidiaries.

2.12 “Consultant” means any consultant, independent contractor or other natural person who provides significant services to the Company or its Affiliates, but who is neither an Employee nor a Director.

2.13 “Continuous Status” as an Employee, Consultant or Director means that a Participant's employment or service relationship with the Company or any Affiliate is not interrupted or terminated. “Continuous Status as an Employee or Consultant” shall not be considered interrupted in the following cases: (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or between the Company and any Subsidiary or successor. A leave of absence approved by the Company shall include sick leave, military leave or any other personal leave approved by an authorized representative of the Company. For purposes of Incentive Stock Options, no leave of absence may exceed ninety (90) days, unless reemployment upon expiration of such leave is required by statute or contract. If such reemployment is not so required, then on the ninety-first (91st) day of such leave any Incentive Stock Option held by the Participant shall cease to

be treated as an Incentive Stock Option and shall be treated for tax purposes as a Nonqualified Stock Option. “Continuous Status as a Director” means the absence of any interruption or termination of service as a Director.

2.14 “Deferred Stock Units” means an Award granted to a Participant that is Restricted Stock, Performance Shares or Performance Units and that is paid out on a deferred basis after such Award has vested as described in Section 10.3.

2.15 “Director” means any individual who is a member of the Board of Directors of the Company.

2.16 “Disability” means a permanent and total disability within the meaning of Code Section 22(e)(3); provided, however, that in the case of Awards other than Incentive Stock Options, the Administrator in its discretion may determine whether a permanent and total disability exists in accordance with uniform and non-discriminatory standards adopted by the Administrator from time to time; and provided further, that with respect to Deferred Stock Units or any other Award that constitutes nonqualified deferred compensation subject to Code Section 409A, “Disability” shall mean only disability within the meaning and determined pursuant to the provisions of Code Section 409A and Treasury Regulation Section 1.409A-3(i)(4).

2.17 “Employee” means any individual who is a common-law employee of the Company or of an Affiliate.

2.18 “Exercise Price” means the price at which a Share may be purchased by a Participant pursuant to the exercise of an Option.

2.19 “Fair Market Value” means the market price of a Share on the relevant date, determined by the Committee as follows:

- (i) If Share was traded on a stock exchange, including NASDAQ on the date in question, then the Fair Market Value shall be equal to the closing price reported by the applicable composite transactions report for such date or if there are no prices reported for such date then the last day that Shares were traded shall be used; and
- (ii) If the Share was traded over-the-counter on the date in question and not on any stock exchange, the Fair Market Value shall be equal to the mean between the last reported representative bid and asked prices quoted for such date by the principal automated inter-dealer quotation system on which the Share is quoted or, if the Share is not quoted on any such system, by the "Pink Sheets" published by the National Quotation Bureau, Inc.;
- (iii) If none of the foregoing provisions is applicable, then the Fair Market Value shall be determined by the Administrator in good faith on such basis as it deems appropriate and with respect to an Award that constitutes nonqualified deferred compensation subject to Code Section 409A, or an Award that would not constitute nonqualified deferred compensation subject to Code Section 409A if a valuation method provided for under the Treasury Regulations under Code Section 409A is used, the Administrator shall utilize a valuation method or procedure that complies with Code Section 409A and the Treasury Regulations thereunder.

In all cases, the determination of Fair Market Value by the Committee shall be conclusive and binding on all persons.

2.20 “Fiscal Year” means a fiscal year of the Company.

2.21 “Freestanding SAR” means a SAR that is granted independently of any Option.

2.22 “Grant Date” means with respect to an Award, the effective date an Award is granted.

2.23 “Incentive Stock Option” means an Option to purchase Shares, which is designated as an Incentive Stock Option and is intended to meet the requirements of Code Section 422.

2.24 “Independent Director” means a Nonemployee Director who is (i) a "non-employee director" within the meaning of Section 16b-3 of the 1934 Act, (ii) "independent" as determined under Securities and Exchange Commission Rule 10C-

a(b)(1) and the applicable rules of the NASDAQ, and (iii) an "outside director" under Treasury Regulation Section 1.162-27(e)(3), as any of these definitions may be modified or supplemented from time to time.

2.25 “Individual Objectives” means, as to a Participant, the objective and measurable goals set by a "management by objectives" process and approved by the Administrator in its discretion.

2.26 “Misconduct” shall include commission of any act in competition with any activity of the Company (or any Affiliate) or any act contrary or harmful to the interests of the Company (or any Affiliate) and shall include, without limitation:

- (a) Conviction of a felony or crime involving moral turpitude or dishonesty;
- (b) Violation of Company (or any Affiliate) policies, with or acting against the interests of the Company (or any Affiliate), including employing or recruiting any present, former or future employee of the Company (or any Affiliate);
- (c) Misuse of any confidential, secret, privileged or non-public information relating to the Company's (or any Affiliate's) business, or
- (d) Participating in a hostile takeover attempt of the Company or an Affiliate.

The foregoing definition shall not be deemed to be inclusive of all acts or omissions that the Company (or any Affiliate) may consider as Misconduct for purposes of the Plan.

2.27 “NASDAQ” means The NASDAQ Stock Market, Inc.

2.28 “Nonemployee Director” means a Director who is not employed by the Company or an Affiliate.

2.29 “Nonqualified Stock Option” means an option to purchase Shares that is not or is not intended to be an Incentive Stock Option.

2.30 “Option” means an Incentive Stock Option or a Nonqualified Stock Option.

2.31 “Participant” means an Employee, Consultant or Nonemployee Director who has an outstanding Award.

2.32 “Performance Goals” means the goal(s) (or combined goal(s)) determined by the Administrator (in its discretion) to be applicable to a Participant with respect to an Award. Performance Goals need not be the same with respect to all Participants and may be established separately for the Company as a whole or for its various groups, divisions, subsidiaries, and may be based on performance in comparison to performance by unrelated businesses specified by the Administrator. All calculations and financial accounting matters relevant to this Plan shall be determined in accordance with GAAP, except as otherwise directed by the Administrator.

The Administrator may, in recognition of unusual or non-recurring items such as acquisition-related activities or changes in applicable accounting rules, provide for one or more equitable adjustments (based on objective standards) to the Performance Goals to preserve the Administrator's original intent regarding the Performance Goals at the time of the initial award grant. It is within the sole discretion of the Administrator to make or not make any such equitable adjustments.

As determined by the Administrator, the Performance Goals applicable to an Award may provide for a targeted level or levels of achievement, including without limitation goals tied to Individual Objectives and/or the Company's (or a business unit's) revenue, earnings, earnings per share, pre-tax earnings and net profits, stock price, market share, costs, return on equity, return on assets, tangible common equity to tangible assets ratio, nonperforming assets to loans ratio, charge off to loan ratio, efficiency ratio (non-interest expense, divided by total revenue), asset management, asset quality, credit rating, regulatory audit results, asset growth or budget achievement, or any other metric that is capable of measurement as determined by the Administrator.

Any Award or determination by the Administrator that may be required under Code Section 162(m), shall only be made by persons who are “outside directors” as defined under Treasury Regulation Section 1.162-27(e)(3), and any persons other than such outside directors shall recuse themselves and abstain from participation or voting with respect to any such Award or determination.

- 2.33 “Performance Shares” mean an Award granted to a Participant pursuant to Section 9 of the Plan that entitles the Participant to receive a prescribed number of Shares upon achievement of performance objectives associated with such Award.
- 2.34 “Performance Unit” means an Award granted to Participant pursuant to Section 9 of the Plan that entitles the Participant to receive a cash payment equal to the value of a prescribed number of Shares upon achievement of performance objectives associated with such Award.
- 2.35 “Period of Restriction” means the period during which the transfer of Shares of Restricted Stock are subject to restrictions that subject the Shares to a substantial risk of forfeiture. As provided in Section 7, such restrictions may be based on the passage of time, the achievement of Performance Goals, or the occurrence of other events as determined by the Administrator, in its discretion.
- 2.36 “Plan” means this Preferred Bank 2014 Equity Incentive Plan, as set forth this instrument and as hereafter amended from time to time.
- 2.37 “Restricted Stock” means an Award granted to a Participant pursuant to Section 7.
- 2.38 “Retirement” means the termination of employment pursuant to the Company's retirement policies for an Employee who has attained the age of sixty-five (65) and whose Continuous Status as an Employee was not interrupted during the previous five (5) years.
- 2.39 “Rule 16b-3” means Rule 16b-3 promulgated under the 1934 Act, and any future regulation amending, supplementing or superseding such regulation.
- 2.40 “SEC” means the U.S. Securities and Exchange Commission.
- 2.41 “Section 16 Person” means a person who, with respect to the Shares, is subject to Section 16 of the 1934 Act.
- 2.42 “Shares” means the shares of common stock of the Company.
- 2.43 “Stock Appreciation Right” or “SAR” means an Award, granted alone or in connection with a related Option, that pursuant to Section 6 is designated as a SAR. A SAR gives a Participant a right to receive an amount equal to the difference between the exercise price of the Shares on the grant date and the Fair Market Value of the Shares on the exercise date. For example, assume a Participant is granted 100 SARs at an exercise price of \$20 (i.e., 100% of the Fair Market Value of the underlying Shares on the grant date). When the SARs become exercisable, the Fair Market Value of the underlying Shares is \$30 per Share. Therefore, upon exercise of the SAR, the Participant is entitled to receive \$1,000 (100 Shares x \$10 per Share).
- 2.44 “Subsidiary” means any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.
- 2.45 “Tandem SAR” means a SAR that is granted in connection with a related Option, the exercise of which shall require forfeiture of the right to purchase an equal number of Shares under the related Option (and when a Share is purchased under the Option, the SAR shall be canceled to the same extent).

SECTION 3 ADMINISTRATION

- 3.1 Authority of the Administrator. Subject to the express provisions and limitations set forth in this Plan, the Administrator shall be authorized and empowered to do all things necessary or desirable, in its sole discretion, in connection with the administration of this Plan, including, without limitation, the following:

- (a) To prescribe, amend, and rescind rules and regulations relating to the Plan, including the forms of Award Agreement and manner of acceptance of an Award, and to take or approve such further actions as it determines necessary or appropriate to the administration of the Plan and Awards, such as correcting a defect or supplying any omission, or reconciling any inconsistency so that the Plan or any Award Agreement complies with Applicable Law, regulations and listing requirements and so as to avoid unanticipated consequences or address unanticipated events (including any temporary closure of NASDAQ, disruption of communications or natural catastrophe) deemed by the Administrator to be inconsistent with the purposes of the Plan or any Award Agreement, provided that no such action shall be taken absent stockholder approval to the extent required under Section 11.2;
- (b) To determine which Employees, Consultants and Directors are eligible to be Participants, to which of such persons, if any, Awards shall be granted hereunder and the timing of any such Awards, and to grant Awards;
- (c) To grant Awards to Participants and determine the terms and conditions thereof, including the number of Shares subject to Awards and the exercise or purchase price of such Shares and the circumstances under which Awards become exercisable or vested or are forfeited or expire, which terms may but need not be conditioned upon the passage of time, continued employment, the satisfaction of performance criteria, the occurrence of certain events, or other factors;
- (d) To adopt such procedures and sub-plans as are necessary or appropriate to permit participation in the Plan by Employees and Directors who are foreign nationals or employed outside of the United States,
- (e) To establish or verify the extent of satisfaction of any performance goals or other conditions applicable to the grant, issuance, exercisability, vesting and/or ability to retain any Award;
- (f) To prescribe and amend the terms of the agreements or other documents evidencing Awards made under this Plan (which need not be identical);
- (g) To determine whether, and the extent to which, adjustments are required pursuant to Section 4.3;
- (h) To interpret and construe this Plan, any rules and regulations under this Plan and the terms and conditions of any Award granted hereunder, and to make exceptions to any such provisions in good faith and for the benefit of the Company; and
- (i) To make all other determinations deemed necessary or advisable for the administration of this Plan.

3.2 Effect of Change in Status. The Administrator shall have the discretion to determine the effect upon an Award and upon an individual's status as an employee under the Plan (including whether a Participant shall be deemed to have experienced a termination of employment or other change in status) and upon the vesting, expiration or forfeiture of an Award in the case of (i) any individual who is employed by an entity that ceases to be an Affiliate of the Company, (ii) any leave of absence approved by the Company or an Affiliate, (iii) any transfer between locations of employment with the Company or an Affiliate or between the Company and any Affiliate or between any Affiliates, (iv) any change in the Participant's status from an employee to a consultant or member of the Board of Directors, or vice versa, and (v) at the request of the Company or an Affiliate, any employee who becomes employed by any partnership, joint venture, corporation or other entity not meeting the requirements of an Affiliate.

3.3 Delegation by the Administrator. The Administrator, in its discretion and on such terms and conditions as it may provide, may delegate all or any part of its authority and powers under the Plan to one or more Directors; provided, however, that the Administrator may not delegate its authority and powers (a) with respect to Section 16 Persons or (b) in any way which would either jeopardize the Plan's or an Award's qualification under Code Section 162(m) or Rule 16b-3 or its compliance with Code Section 409A.

3.4 Determinations of the Administrator. All decisions, determinations and interpretations by the Administrator regarding this Plan shall be final and binding on all Participants or other persons claiming rights under the Plan or any Award. The Administrator shall consider such factors as it deems relevant to making such decisions, determinations and interpretations including, without limitation, the recommendations or advice of any director, officer or employee of the Company and such attorneys, consultants and accountants as it may select. A Participant or other holder of an Award may

contest a decision or action by the Administrator with respect to such person or Award only on the grounds that such decision or action was arbitrary or capricious or was unlawful, and any review of such decision or action shall be limited to determining whether the Administrator's decision or action was arbitrary or capricious or was unlawful.

SECTION 4 SHARES SUBJECT TO THE PLAN

4.1 Number of Shares. Subject to adjustment, as provided in Section 4.3, the total combined number of Shares, Performance Shares and Performance Units initially available for issuance upon grant or exercise of a grant under the Plan shall be two and one half million (2,500,000). When any Award made under the Plan expires, or is forfeited or cancelled without the delivery of Shares, such Shares will become available for future Awards under the Plan. Shares granted under the Plan may be authorized but unissued Shares or, to the extent permitted by applicable corporate and banking laws, reacquired Shares. Of such total, the number of Shares available for issuance upon exercise of Incentive Stock Options is five hundred thousand (500,000).

4.2 Lapsed Awards. If an Award is cancelled, terminates, expires, or lapses for any reason (with the exception of the termination of a Tandem SAR upon exercise of the related Option, or the termination of a related Option upon exercise of the corresponding Tandem SAR), any Shares subject to such Award again shall be available to be the subject of an Award.

4.3 Adjustments in Awards and Authorized Shares. Except as provided under Section 4.3.1, and subject to the limitations of Section 10.6, in the event that any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, or other change in the corporate structure of the Company affecting the Shares occurs such that an adjustment is determined by the Administrator (in its discretion) to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Administrator shall, in such manner as it may deem equitable, adjust the number and class of Shares which may be delivered under the Plan, the number, class, and price of Shares subject to outstanding Awards, and the numerical limits of Sections 4.1, 8.1 and 10.6. Notwithstanding the preceding, the number of Shares subject to any Award always shall be a whole number.

4.3.1 Incentive Stock Options. Except as provided in Sections 4.3.2, any adjustment to the maximum aggregate number of Shares to be issued through the exercise of Incentive Stock Options must be approved by shareholders within 12 months before or after the date a resolution is adopted by the Board of Directors to adjust the maximum aggregate number of Shares to be issued through the exercise of Incentive Stock Options.

4.3.2 Increase to Reflect Outstanding Shares. Any adjustment described in Section 4.3.1 which merely reflects a change in the outstanding Shares, such as a stock dividend or stock split, will be effective without shareholder approval.

4.4 Repurchase Option. Except to the extent that there would exist an acceleration of payment with respect to an Award subject to Code Section 409A, and otherwise to the extent consistent with the requirements of Code Section 409A, the Administrator may include in the terms of any Award Agreement that the Company shall have the option to repurchase Shares of any Participant acquired pursuant to the Award granted under the Plan upon a Participant's Termination of Service. The terms of such repurchase right shall be set forth in the Award Agreement.

4.5 Buy-Out Provision. Except to the extent that there would exist an acceleration of payment with respect to an Award subject to Code Section 409A, and otherwise to the extent consistent with the requirements of Code Section 409A, the Administrator may at any time offer on behalf of the Company to buy-out, for a payment in cash or Shares, an Award previously granted, based on such terms and conditions as the Administrator shall establish and communicate to the Participants at the time such offer is made; provided, however, to the extent Sections 13(e) and/or 14(e) of the 1934 Act and the rules and regulations thereunder are applicable to any such offer, the Company shall comply with the requirements of such sections; provided further that any buyout of an Award that the Administrator intends to be "performance-based compensation" within the meaning of Code Section 162(m) shall not be made if the Administrator determines that such buyout could cause the Award to fail to be performance-based compensation or otherwise not in compliance with the limits under Code Section 162(m)..

4.6 Legal Compliance. Awards and Shares shall not be issued pursuant to the making or exercise of an Award unless the exercise of Options and rights and the issuance and delivery of Shares shall comply with the California Financial Code, as amended, the 1934 Act and other Applicable Law, and shall be further subject to the approval of counsel for the Company with respect to such compliance. Any Award made in violation hereof shall be null and void.

4.7 Restrictions on Share Transferability. The Administrator may impose such restrictions on any Award of Shares or Shares acquired pursuant to the exercise of an Award as it may deem advisable or appropriate, including, but not limited to, restrictions related to applicable Federal securities laws, the requirements of any national securities exchange or system upon which Shares are then listed or traded, and any blue sky or other state securities laws.

4.8 Investment Representations. As a condition to the exercise of an Option or other right, the Company may require the person exercising such Option or right to represent and warrant at the time of exercise that the Shares are being acquired only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

4.9 Dodd-Frank Clawback. The Administrator shall have full authority to implement any policies and procedures necessary to comply with Section 10D of the Exchange Act and any rules promulgated thereunder. Without limiting the foregoing, to the extent necessary to comply with the Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act or other applicable law, the Administrator may provide in Award agreements that, in event of a financial restatement that reduces the amount of previously awarded incentive compensation which would not have been earned had results been properly reported, outstanding awards will be cancelled and Company may clawback (i.e., recapture) realized gains, realized value or Earned Awards arising during such period necessary to comply with such law.

SECTION 5 EMPLOYEE AND CONSULTANT STOCK OPTIONS

The provisions of this Section 5 are applicable only to Options granted to Employees (including Directors who are also Employees) and Consultants. Such Participants shall also be eligible to receive other types of Awards as set forth in the Plan.

5.1 Grant of Options. Subject to the terms and provisions of the Plan, Options may be granted to Employees and Consultants at any time and from time to time as determined by the Administrator in its discretion, provided that only Employees may be granted Incentive Stock Options. The Administrator may grant Incentive Stock Options, Nonqualified Stock Options, or a combination thereof, and the Administrator, in its discretion and subject to Sections 4.1 and 10.6, shall determine the number of Shares subject to each Option.

5.2 Award Agreement. Each Option shall be evidenced by an Award Agreement that shall specify the Exercise Price, the expiration date of the Option, the number of Shares to which the Option pertains, any conditions to exercise the Option, and such other terms and conditions as the Administrator, in its discretion, shall determine. The Award Agreement shall also specify whether the Option is intended to be an Incentive Stock Option or a Nonqualified Stock Option.

5.3 Exercise Price. The Administrator shall determine the Exercise Price for each Option subject to the provisions of this Section 5.3.

5.3.1 Nonqualified Stock Options. In the case of a Nonqualified Stock Option, the Exercise Price shall be determined by the Administrator, but in no case shall the per Share exercise price be less than one hundred percent (100%) of the Fair Market Value of a Share on the Grant Date.

5.3.2 Incentive Stock Options. The grant of Incentive Stock Options shall be subject to the following limitations:

- (a) The Exercise Price of an Incentive Stock Option shall be not less than one hundred percent (100%) of the Fair Market Value of a Share on the Grant Date; provided, however, that if on the Grant Date, the Employee (together with persons whose stock ownership is attributed to the Employee pursuant to Code Section 424(d)) owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any of its Subsidiaries, the Exercise Price shall be not less than one hundred and ten percent (110%) of the Fair Market Value of a Share on the Grant Date;

- (b) Incentive Stock Options may be granted only to persons who are, as of the Grant Date, Employees of the Company or a Subsidiary, and may not be granted to Nonemployee Directors or Consultants;
- (c) To the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Participant during any calendar year (under all plans of the Company and any parent or Subsidiary) exceeds \$100,000, such Options shall be treated as Nonqualified Stock Options. For purposes of this Section 5.3.2(c), Incentive Stock Options shall be taken into account in the order in which they were granted. The Fair Market Value of the Shares shall be determined as of the time the Option with respect to such Shares is granted; and
- (d) In the event of a Participant's change of status from Employee to Consultant or Director, an Incentive Stock Option held by the Participant shall cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Nonqualified Stock Option three (3) months and one (1) day following such change of status.
- (e) In the event a Participant shall have taken any act, including but not limited to an early disposition of Shares acquired upon the exercise of an Incentive Stock Option that would cause such Option to lose its status as an Incentive Stock Option, such Participant shall immediately notify the Administrator.

5.3.3 Substitute Options. Notwithstanding the provisions of Sections 5.3.1 and 5.3.2, in the event that the Company or an Affiliate consummates a transaction described in Code Section 424(a) (e.g., the acquisition of property or stock from an unrelated corporation), persons who become Employees, Directors or Consultants on account of such transaction may, subject to satisfying the requirements of Treasury Regulations Section 1.424-1(a)(5), be granted Options in substitution for options granted by their former employer. If such substitute Options are granted, the Administrator, in its discretion and consistent with Section 424(a) of the Code, shall determine the exercise price of such substitute Options, provided that such exercise price shall not be less than one hundred percent (100%) of the Fair Market Value of the Shares on the Grant Date.

5.4 Expiration of Options

5.4.1 Expiration Dates. Each Option shall terminate no later than the first to occur of the following events:

- (a) Date in Award Agreement. The date for termination of the Option set forth in the written Award Agreement; or
- (b) Termination of Continuous Status as Employee or Consultant. The last day of the three (3)-month period following the date the Participant ceases his/her Continuous Status as an Employee or Consultant (other than termination for a reason described in subsections (c), (d), (e), (f) or (g) below); or
- (c) Misconduct. In the event a Participant's Continuous Status as an Employee or Consultant terminates because the Participant has performed an act of Misconduct as determined by the Administrator, all unexercised Options held by such Participant shall expire immediately upon such determination;
- (d) Disability. In the event that a Participant's Continuous Status as an Employee or Consultant terminates as a result of the Participant's Disability, the Participant may exercise his or her Option at any time within twelve (12) months from the date of such termination, but only to the extent that the Participant was entitled to exercise it at the date of such termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). If, at the date of termination, the Participant is not entitled to exercise his or her entire Option, the Shares covered by the unexercisable portion of the Option shall revert to the Plan. If, after termination, the Participant does not exercise his or her Option within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan;
- (e) Death. In the event of the death of a Participant, the Option may be exercised at any time within twenty-four (24) months following the date of death (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement), by the Participant's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent that the Participant was entitled to exercise the Option at the date of death. If, at the time of death, the Participant was not entitled to

exercise his or her entire Option, the Shares covered by the unexercisable portion of the Option shall immediately revert to the Plan. If, after death, the Participant's estate or a person who acquired the right to exercise the Option by bequest or inheritance does not exercise the Option within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan; or

- (f) Retirement. In the event that a Participant's Continuous Status as an Employee terminates as a result of the Participant's Retirement, the Participant may exercise his or her Option at any time subject to the limitations in the Plan and the Award Agreement, but only to the extent that the Participant was entitled to exercise the Option at the time of such termination, unless otherwise expressly provided in a written agreement between the Participant and the Company. However, any Incentive Stock Options not exercised within three (3) months of the termination of the Participant's Continuous Status as an Employee shall be treated for tax purposes as Nonqualified Stock Options three (3) months and one (1) day following such Retirement; or
- (g) 10 Years from Grant. Unless otherwise specified above, an Option shall expire no more than ten (10) years from the Grant Date; provided, however, that if an Incentive Stock Option is granted to an Employee who, together with persons whose stock ownership is attributed to the Employee pursuant to Code Section 424(d), owns stock possessing more than 10% of the total combined voting power of all classes of the stock of the Company or any of its Subsidiaries, such Incentive Stock Option may not be exercised after the expiration of five (5) years from the Grant Date.
- (h) Change in Status. In the event a Participant's status has changed from Consultant or Director to Employee, or vice versa, a Participant's Continuous Status as an Employee, Director or Consultant shall not automatically terminate solely as a result of such change in status.

5.4.2 Administrator Discretion. Subject to the limits of Section 5.4.1, the Administrator, in its discretion, (a) shall provide in each Award Agreement when each Option expires and becomes unexercisable, and (b) may, after an Option is granted, extend the maximum term of the Option (subject to limitations applicable to Incentive Stock Options).

5.5 Exercisability of Options. Options granted under the Plan shall be exercisable at such times and be subject to such restrictions and conditions as the Administrator shall determine in its discretion. After an Option is granted, the Administrator, in its discretion, may accelerate the exercisability of the Option.

5.6 Exercise and Payment. Options shall be exercised by the Participant's delivery of a written notice of exercise to the Secretary of the Company (or its designee), setting forth the number of Shares with respect to which the Option is to be exercised, accompanied by full payment for the Shares.

5.6.1 Form of Consideration. Upon the exercise of any Option, the Exercise Price shall be payable to the Company in full in cash or its equivalent. The Administrator, in its discretion, also may permit the same-day exercise and sale of Options and related Shares, or exercise by tendering previously acquired Shares having an aggregate Fair Market Value at the time of exercise equal to the total Exercise Price (such previously acquired Shares must have been held for the requisite period necessary to avoid a charge to the Company's earnings for financial reporting purposes, unless otherwise determined by the Administrator), or by any other means which the Administrator, in its discretion, determines to provide legal consideration for the Shares, and to be consistent with the purposes of the Plan.

5.6.2 Delivery of Shares. As soon as practicable after receipt of a written notification of exercise and full payment for the Shares purchased, the Company shall deliver to the Participant (or the Participant's designated broker), Share certificates (which may be in book entry form) representing such Shares.

SECTION 6 STOCK APPRECIATION RIGHTS

6.1 Grant of SARs. Subject to the terms of the Plan, a SAR may be granted to Employees, Directors and Consultants at any time and from time to time as shall be determined by the Administrator. The Administrator may grant, Freestanding SARs, Tandem SARs, or any combination thereof.

6.1.1 Number of Shares. The Administrator shall have complete discretion to determine the number of SARs granted to any Participant, subject to the limitation in Section 10.6.

6.1.2 Exercise Price and Other Terms. The Administrator, subject to the provisions of the Plan, shall have discretion to determine the terms and conditions of SARs granted under the Plan. However, the exercise price of a Freestanding SAR shall be not less than one hundred percent (100%) of the Fair Market Value of a Share on the Grant Date. The exercise price of Tandem SARs shall equal the Exercise Price of the related Option and shall be one hundred percent (100%) of the Fair Market Value of a Share on the Grant Date of the related Option.

6.2 Exercise of Tandem SARs. Tandem SARs may be exercised for all or part of the Shares subject to the related Option upon the surrender of the right to exercise the equivalent portion of the related Option. A Tandem SAR may be exercised only with respect to the number of Shares for which its related Option is then exercisable. With respect to a Tandem SAR granted in connection with an Incentive Stock Option: (a) the Tandem SAR shall expire no later than the expiration of the underlying Incentive Stock Option; (b) the value of the payout with respect to the Tandem SAR shall be for no more than one hundred percent (100%) of the difference between the Exercise Price of the underlying Incentive Stock Option and the Fair Market Value of the Shares subject to the underlying Incentive Stock Option at the time the Tandem SAR is exercised; and (c) the Tandem SAR shall be exercisable only when the Fair Market Value of the Shares subject to the Incentive Stock Option exceeds the Exercise Price of the Incentive Stock Option.

6.3 Exercise of Freestanding SARs. Freestanding SARs shall be exercisable on such terms and conditions as the Administrator, in its discretion, shall determine.

6.4 SAR Agreement. Each SAR grant shall be evidenced by an Award Agreement that shall specify the exercise price, the term of the SAR, the conditions of exercise and such other terms and conditions as the Administrator shall determine.

6.5 Expiration of SARs. A SAR granted under the Plan shall expire upon the date determined by the Administrator in its discretion as set forth in the Award Agreement, or otherwise pursuant to the provisions relating to the expiration of Options as set forth in Sections 5.4.

6.6 Payment of SAR Amount. Upon exercise of a SAR, a Participant shall be entitled to receive payment from the Company in an amount determined by multiplying: (a) the difference between the Fair Market Value of a Share on the date of exercise over the Option Exercise Price, times (b) the number of Shares with respect to which the SAR is exercised. At the discretion of the Administrator, the payment upon SAR exercise may be in cash, in Shares of equivalent value or in some combination thereof. The payment by the Company shall be made no later than March 15 of the year following the calendar year in which the SAR is exercised.

SECTION 7 RESTRICTED STOCK

7.1 Grant of Restricted Stock. Subject to the terms and provisions of this Plan, the Administrator, at any time and from time to time, may grant Shares of Restricted Stock to Employees, Directors and Consultants in such amounts as the Administrator, in its discretion, shall determine. The Administrator, in its discretion and subject to Section 10.6, shall determine the number of Shares to be granted to each Participant.

7.2 Restricted Stock Agreement. Each Award of Restricted Stock shall be evidenced by an Award Agreement that shall specify the Period of Restriction, the number of Shares granted, and such other terms and conditions as the Administrator, in its discretion, shall determine. Unless the Administrator determines otherwise, Shares of Restricted Stock shall be held by the Company as escrow agent until the restrictions on such Shares have lapsed.

7.3 Transferability. Except as provided in this Section 7, Shares of Restricted Stock may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the expiration of the applicable Period of Restriction.

7.4 Other Restrictions. The Administrator, in its discretion, may impose such other restrictions on Shares of Restricted Stock as it may deem advisable or appropriate, in accordance with this Section 7.4, including, without limitation, provisions relating to expiration of restrictions equivalent to the provisions relating to expiration of options as set forth in Section 5.4.

7.4.1 General Restrictions. The Administrator may set restrictions based upon the achievement of specific performance objectives (Company-wide, business unit, or individual), or any other basis determined by the Administrator in its discretion.

7.4.2 Section 162(m) Performance Restrictions. For purposes of qualifying grants of Restricted Stock as "performance-based compensation" under Code Section 162(m), the Administrator, in its discretion, may set restrictions based upon the achievement of Performance Goals. The Performance Goals shall be set by the Administrator on or before the latest date permissible to enable the Restricted Stock to qualify as "performance-based compensation" under Code Section 162(m). In granting Restricted Stock which is intended to qualify under Code Section 162(m), the Administrator shall follow any procedures determined by it from time to time to be necessary or appropriate to ensure qualification of the Restricted Stock under Code Section 162(m) (e.g., in determining the Performance Goals).

7.4.3 Legend on Certificates. The Administrator, in its discretion, may legend the certificates representing Restricted Stock to give appropriate notice of such restrictions.

7.5 Removal of Restrictions. Except as otherwise provided in this Section 7, Shares of Restricted Stock covered by each Restricted Stock grant made under the Plan shall be released from escrow as soon as practicable after expiration of the Period of Restriction. The Administrator, in its discretion, may accelerate the time at which any restrictions shall lapse or be removed, except with respect to such restriction applicable to Deferred Stock Units or other nonqualified deferred compensation under Code Section 409A such that the acceleration of such restrictions would result in a prohibited acceleration of payment under Code Section 409A or the Treasury Regulations thereunder. After the restrictions have lapsed, the Participant shall be entitled to have any legend or legends under Section 7.4.3 removed from his or her Share certificate, and the Shares shall be freely transferable by the Participant, subject to Applicable Law.

7.6 Voting Rights. During the Period of Restriction, Participants holding Shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those Shares, unless the Administrator determines otherwise.

7.7 Dividends and Other Distributions. During the Period of Restriction, Participants holding Shares of Restricted Stock shall be entitled to receive all dividends and other distributions paid with respect to such Shares unless otherwise provided in the Award Agreement. If any such dividends or distributions are paid in Shares, the Shares shall be subject to the same restrictions on transferability and forfeitability as the Shares of Restricted Stock with respect to which they were paid.

7.8 Return of Restricted Stock to Company. On the date set forth in the Award Agreement, the Restricted Stock for which restrictions have not lapsed shall revert to the Company and again shall become available for grant under the Plan.

7.9 Section 83(b) Election. The Administrator may provide in an Award Agreement that the Award of Restricted Stock is conditioned upon the Participant making or refraining from making an election with respect to the Award under Code Section 83(b). If a Participant makes an election pursuant to Code Section 83(b) concerning a Restricted Stock Award, the Participant shall be required to promptly file a copy of such election with the Company.

SECTION 8 NONEMPLOYEE DIRECTOR AWARDS

The provisions of this Section 8 are applicable only to Nonemployee Directors.

8.1 Granting of Options

8.1.1 Initial Grants. Each Nonemployee Director who first becomes a Nonemployee Director on or after the Plan Effective Date (excluding each Nonemployee Director who, at the time he or she first becomes a Director, holds unvested options to purchase Shares or securities convertible or exchangeable for Shares as a result of such Outside Director's service as a director of an Affiliate), shall be entitled to receive, as of the date that the individual first is appointed or elected as a Nonemployee Director, an Award of up to 1,000 Shares, or such lesser number of Shares as is allowed pursuant to Section 10.6. Such Award may consist of a single type or any combination of the types of Awards permissible under this Plan, as determined from time to time by the Board as a whole.

8.1.2 Ongoing Grants. On the first trading day of February in each calendar year, each Nonemployee Director who has served as a Nonemployee Director for at least five months on that date shall be granted an Award of up to 750 Shares, or such lesser amount of Shares as is allowed pursuant to Section 10.6, provided that such Nonemployee Director is a member of the Board. Such Award may consist of a single type or any combination of the types of Awards permissible under this Plan, as determined from time to time by the Board as a whole.

8.1.3 Imputed Value. For purposes of Section 8.3 (as such section relates to Options), the "Imputed Value" of any Award shall mean the value on the applicable date as determined in accordance with Financial Accounting Standards Board Statement No. 123, "Accounting for Stock-Based Compensation," as the same may be amended from time to time.

8.2 Terms of Options.

8.2.1 Option Agreement. A written Award Agreement between the Participant and the Company shall evidence each Option granted pursuant to this Section 8.

8.2.2 Exercise Price. The Exercise Price for the Shares subject to each Option granted pursuant to this Section 8 shall be 100% of the Fair Market Value of such Shares on the Grant Date.

8.2.3 Expiration of Options. Each Option granted pursuant to this Section 8 shall terminate upon the first to occur of the following events:

- (a) The date for termination of the Option set forth in the written Award Agreement; or
- (b) The expiration of ten (10) years from the Grant Date; or
- (c) The expiration of twelve (12) months from the date the Participant ceases Continuous Status as a Director for any reason other than the Participant's death or Disability; or
- (d) In the event that a Participant's Continuous Status as a Director terminates as a result of the Participant's Death or Disability, the Participant's Option shall terminate in accordance with the provisions set forth in Section 5.4.1 (d) and (e), respectively.

8.2.4 Nongualified Stock Options Only. No Incentive Options may be granted pursuant to this Section 8.

8.2.5 Vesting and Other Terms. Except as provided in Section 8.2.3, Options granted pursuant to this Section 8 shall become exercisable on terms and conditions determined by the Administrator in its sole discretion. All other provisions of the Plan not inconsistent with this Section 8 shall also apply to Options granted to Nonemployee Directors. In the event of any inconsistency between provisions set forth in Section 8 and those set forth elsewhere in the Plan as they relate to Options, the provisions of Section 8 shall govern with respect to Options granted to Nonemployee Directors.

8.2.6 Substitute Options. In the event that the Company or an Affiliate consummates a transaction described in Code Section 424(a) (e.g., the acquisition of property or stock from an unrelated corporation), an individual who becomes a Nonemployee Director as a result of such transaction may be granted Options in substitution for options granted by the unrelated corporation. If such substitute Options are granted, the Administrator may adjust the pricing of such Options, subject to Section 4.1.2, and consistent with Code Sections 424(a) and 409A and the Treasury Regulations thereunder so that such substitute Options do not constitute the grant of nonqualified deferred compensation for purposes of Section 409A.

8.3 Elections by Nonemployee Directors. Pursuant to such procedures as the Administrator (in its discretion) may adopt from time to time, each Nonemployee Director may, prior to the calendar year in which the amounts would otherwise be earned, elect to forego receipt of all or a portion of the annual retainer, committee fees and meeting fees otherwise due to the Nonemployee Director in exchange for an Award under this Plan. Any such Award shall be considered to be an Award of Deferred Stock Units and subject to the rules of Code Section 409A and the Treasury Regulations thereunder. Any such Election shall specify the time and form of payment of such Award as applicable to Deferred Stock Units as provided in Section 10.3 and otherwise in a manner that satisfies the rules of Code Section 409A and the Treasury Regulations thereunder. The number of Shares subject to an Award received by any Nonemployee Director shall equal the amount of foregone compensation divided by the Fair Market Value of a Share on the date the compensation otherwise would have been paid to the Nonemployee Director, rounded up to the nearest whole number of Shares. The number of Options granted shall

be determined by dividing the cash amount foregone by the Imputed Value of the Options (as defined in Section 8.1.3), rounded up to the nearest whole number of Shares. The procedures adopted by the Administrator for elections under this Section 8.3 shall be designed to ensure that any such election by a Nonemployee Director will not disqualify him or her as a "nonemployee director" under Rule 16b-3.

SECTION 9 PERFORMANCE SHARES AND PERFORMANCE UNITS

9.1 Grant of Performance Shares/Units. Subject to the terms and conditions of the Plan, Performance Shares and Performance Units may be granted to Employees, Directors and Consultants at any time and from time to time, as shall be determined by the Administrator in its discretion.

9.1.1 Number of Units or Shares. The Administrator will have complete discretion in determining the number of Performance Shares and Performance Units granted to any Participant, subject to the limitations in Sections 4.1.2 and 10.6.

9.1.2 Value of Performance Shares/Units. Subject to Section 4.1.2, each Performance Unit will have an initial Imputed Value that is established by the Administrator on or before the Grant Date in accordance with Section 8.1.3. Each Performance Share will have an initial Imputed Value equal to the Fair Market Value of a Share on the Grant Date.

9.2 Performance Objectives and Other Terms. The Administrator will set performance objectives or other vesting provisions, including, without limitation, time-based vesting provisions, in its discretion which, depending on the extent to which they are met, will determine the number or value of Performance Shares/Units that will be paid out to Participants. The time period during which the performance objectives or other vesting provisions must be met will be called the "Performance Period." Each Award of Performance Shares/Units will be evidenced by an Award Agreement that will specify the Performance Period, and such other terms and conditions as the Administrator, in its discretion, will determine. The Administrator may set performance objectives based upon the achievement of Company-wide or individual goals or any other basis determined by the Administrator in its discretion.

9.3 Earning of Performance Shares/Units. After the applicable Performance Period has ended, the holder of Performance Units/Shares will be entitled to receive a payout of the number of Performance Units/Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance objectives or other vesting provisions have been achieved. After the grant of a Performance Unit/Share, the Administrator, in its discretion, may reduce or waive any performance objectives or other vesting provisions for such Performance Unit/Share.

9.4 Form and Timing of Payment of Performance Shares/Units. Payment of earned Performance Shares/Units will be made as soon as practicable after the expiration of the applicable Performance Period, but no later than March 15 of the year following the expiration of such Performance Period. The Administrator, in its discretion, may pay earned Performance Shares/Units in the form of cash, in Shares (which have an aggregate Fair Market Value equal to the value of the earned Performance Units/Shares at the close of the applicable Performance Period) or in a combination thereof.

9.5 Cancellation of Performance Shares/Units. On the date set forth in the Award Agreement, all unearned or unvested Performance Shares/Units will be forfeited to the Company, and again will be available for grant under the Plan.

SECTION 10 MISCELLANEOUS

10.1 Change In Control

10.1.1 Generally. In the event of a Change in Control, unless an Award is assumed or substituted by the successor corporation, then (i) such Awards shall become fully exercisable as of the date of the Change in Control, whether or not then exercisable and (ii) all restrictions and conditions on any Award then outstanding shall lapse as of the date of the Change in Control.

10.1.2 Options and SARs. If the Administrator determines that Options and SARs will be assumed or an equivalent option or right substituted by the successor corporation or a parent or Subsidiary of the successor corporation, then:

- (a) In the event that the successor corporation refuses to assume or substitute for the Option or SAR, the Options and SARs held by such Participant shall immediately become one hundred percent (100%) exercisable. In such event, the Company shall notify the Participant in writing or electronically that the Options and SARs are fully exercisable (subject to the consummation of the Change in Control) for a period of ninety (90) days from the date of such notice, and the Option or SAR shall terminate upon the expiration of such period.
- (b) For the purposes of this Section 10.1.2, the Option or SAR shall be considered assumed if, following the Change in Control, the option or SAR confers the right to purchase or receive, for each Share subject to the Option or SAR immediately prior to the Change in Control, the consideration (whether stock, cash, or other securities or property) received in the Change in Control event by holders of Shares for each Share held on the closing date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the Change in Control is not solely common stock of the successor corporation or its parent, the Administrator or the Board may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option or SAR, for each Share subject to the Option or SAR, to be solely common stock of the successor corporation or its parent equal in fair market value to the per share consideration received by holders of Shares in the Change in Control, as determined on the date of the Change in Control.

10.1.3 Restricted Stock. If the Administrator determines that any Company repurchase or reacquisition right with respect to outstanding Shares of Restricted Stock held by the Participant will be assigned to the successor corporation, then in the event that the successor corporation refuses to accept the assignment of any such Company repurchase or reacquisition right, such Company repurchase or reacquisition right will immediately lapse and the Participant will become one hundred percent (100%) vested in such Shares of Restricted Stock prior to the closing of the Change in Control event.

10.1.4 Performance Shares/Units. If the Administrator determines that Performance Shares/Units will be assumed or an equivalent option or right substituted by the successor corporation or a parent or Subsidiary of the successor corporation, then

(a) In the event that the successor corporation refuses to assume or substitute for the Performance Shares/Units, 100% of all performance objectives will be deemed achieved and all other terms and conditions met. In such event, the Company shall notify the Participant in writing or electronically that the Performance Shares/Units are fully exercisable (subject to the consummation of the Change in Control) for a period of ninety (90) days from the date of such notice, and Performance Shares/Units shall terminate upon the expiration of such period.

(b) For the purposes of this Section 10.1.4, the Performance Share/Unit shall be considered assumed if, following the Change in Control, the Performance Share/Unit confers the right to purchase or receive, for each Share subject to the Performance Share/Unit immediately prior to the Change in Control, the consideration (whether stock, cash, or other securities or property) received in the Change in Control by holders of Shares for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the Change in Control is not solely common stock of the successor corporation or its parent, the Administrator or the Board may, with the consent of the successor corporation, provide for the consideration to be received upon the payout of a Performance Share/Unit, for each Share subject to such Award (or, in the case of Performance Units, the number of implied Shares determined by dividing the value of the Performance Units by the per share consideration received by holders of Shares), to be solely common stock of the successor corporation or its parent equal in fair market value to the per share consideration received by holders of Shares in the Change in Control, as determined on the date of the Change in Control.

Notwithstanding anything in this Section 10.1.4 to the contrary, an Award that vests, is earned or paid-out upon the satisfaction of one or more performance goals will not be considered assumed if the Company or its successor modifies any of such performance goals without the Participant's consent; provided, however, that a modification to such performance goals only to reflect the successor corporation's post Change in Control corporate structure will not be deemed to invalidate an otherwise valid Award assumption.

10.2 Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator shall notify each Participant as soon as practicable prior to the effective date of such proposed transaction. The Administrator in its discretion may provide for a Participant to have the right to exercise his or her Award until ten (10) days prior to such transaction as to all of the Shares covered thereby, including Shares as to which the Award would not otherwise

be exercisable. In addition, the Administrator may provide that any Company repurchase rights applicable to any Shares purchased upon exercise of an Award shall lapse as to all such Shares, provided the proposed dissolution or liquidation takes place at the time and in the manner contemplated. To the extent it has not been previously exercised, an Award will terminate immediately prior to the consummation of such proposed action.

10.3 Deferred Stock Units. The Administrator, in its discretion, may permit a Participant to defer receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant under an Award if such Participant at the time of the grant of Performance Units/Shares executes an irrevocable election to so defer payment. Such election shall be on such form and executed in such manner as the Administrator in its discretion shall determine, but shall in all events provide for payment on either (a) a fixed date or (b) the date of the Participant's separation from service; provided that the election may provide for payment upon if earlier than (a) or (b) (as specified), upon death, disability, a change of control, or the occurrence of an unforeseen emergency, all as such terms are defined in Code Section 409A and the Treasury Regulations issued thereunder.

10.4 No Effect on Employment or Service. Nothing in the Plan shall interfere with or limit in any way the right of the Company or an Affiliate to terminate any Participant's employment or service at any time, with or without cause. Unless otherwise provided by written contract, employment with the Company and its Affiliates is on an at-will basis only. Additionally, the Plan shall not confer upon any Nonemployee Director any right with respect to continuation of service as a Director or nomination to serve as a Director, nor shall it interfere in any way with any rights which such Nonemployee Director or the Company may have to terminate his or her directorship at any time.

10.5 Participation. No Employee or Consultant shall have the right to be selected to receive an Award under this Plan, or, having been so selected, to be selected to receive a future Award.

10.6 Limitations on Awards. No Participant shall be granted an Award in any Fiscal Year for Shares, Performance Shares and Performance Units combined representing more than the lesser of (i) five percent (5%) of the Company's total number of outstanding Shares immediately prior to the issuance of such Award or (ii) 300,000 Shares; provided, however, that such limitation shall be adjusted proportionately in connection with any change in the Company's capitalization as described in Section 4.3.

10.7 Successors. All obligations of the Company under the Plan, with respect to Awards granted hereunder, shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation or, otherwise, sale or disposition of all or substantially all of the business or assets of the Company.

10.8 Beneficiary Designations. If permitted by the Administrator, a Participant under the Plan may name a beneficiary or beneficiaries to whom any vested but unpaid Award shall be paid in the event of the Participant's death. Each such designation shall revoke all prior designations by the Participant and shall be effective only if given in a form and manner acceptable to the Administrator. In the absence of any such designation, any vested benefits remaining unpaid at the Participant's death shall be paid to the Participant's estate and, subject to the terms of the Plan and of the applicable Award Agreement, any unexercised vested Award may be exercised by the administrator or executor of the Participant's estate.

10.9 Limited Transferability of Awards. No Award granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. All rights with respect to an Award granted to a Participant shall be available during his or her lifetime only to the Participant. Notwithstanding the foregoing, the Participant may, in a manner specified by the Administrator, (a) transfer a Nonqualified Stock Option to a Participant's spouse, former spouse or dependent pursuant to a court-approved domestic relations order which relates to the provision of child support, alimony payments or marital property rights and (b) transfer a Nonqualified Stock Option by bona fide gift and not for any consideration, and subject to meeting the requirements of Treasury Regulation Section 1.83-7(a), to (i) a member or members of the Participant's immediate family, (ii) a trust established for the exclusive benefit of the Participant and/or member(s) of the Participant's immediate family, (iii) a partnership, limited liability company of other entity whose only partners or members are the Participant and/or member(s) of the Participant's immediate family or (iv) a foundation in which the Participant an/or member(s) of the Participant's immediate family control the management of the foundation's assets.

10.10 Restrictions on Share Transferability. The Administrator may impose such restrictions on any Shares acquired pursuant to the exercise of an Award as it may deem advisable, including, but not limited to, restrictions related to applicable federal securities laws, the requirements of any national securities exchange or system upon which Shares are then listed or traded or any blue sky or state securities laws.

10.11 Buyout Provisions. Except with respect to Deferred Stock Units or any other Award subject to Code Section 409A, the Administrator may at any time offer to buyout for a payment in cash or Shares, an Award previously granted based on such terms and conditions as the Administrator shall establish and communicate to the Participant at the time that such offer is made.

10.12 No Rights as Shareholder. Except to the limited extent provided in Sections 7.6 and 7.7, no Participant (nor any beneficiary) shall have any of the rights or privileges of a shareholder of the Company with respect to any Shares issuable pursuant to an Award (or exercise thereof), unless and until certificates representing such Shares shall have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to the Participant (or beneficiary).

SECTION 11 AMENDMENT, TERMINATION, AND DURATION; RE-PRICING PROHIBITED

11.1 Amendment, Suspension, or Termination. Except as provided in Section 11.2, the Board, in its sole discretion, may amend, suspend or terminate the Plan, or any part thereof, at any time and for any reason. The amendment, suspension or termination of the Plan shall not, without the consent of the Participant, alter or impair any rights or obligations under any Award theretofore granted to such Participant. No Award may be granted during any period of suspension or after termination of the Plan.

11.2 No Amendment or Re-Pricing without Shareholder Approval. The Company shall obtain shareholder approval of any material Plan amendment (including but not limited to any provision to reduce the exercise or purchase price of any outstanding Options or other Awards after the Grant Date (other than for adjustments made pursuant Section 4.3), or to cancel and re-grant Options or other rights at a lower exercise price), to the extent necessary or desirable to comply with the rules of the NASDAQ, the Exchange Act, Code Section 409A, Code Section 422, or other Applicable Law.

11.3 Plan Effective Date and Duration of Awards. The Plan shall be effective as of the Plan Adoption Date subject to the shareholders of the Company approving the Plan by the required vote), subject to Sections 11.1 and 11.2 (regarding the Board's right to amend or terminate the Plan), and shall remain in effect thereafter. However, without further shareholder approval, no Award may be granted under the Plan more than ten (10) years after the Plan Adoption Date.

SECTION 12 TAX WITHHOLDING

12.1 Withholding Requirements. Prior to the delivery of any Shares or cash pursuant to an Award (or exercise thereof), the Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy federal, state, and local taxes (including the Participant's FICA obligation) required to be withheld with respect to such Award (or exercise thereof).

12.2 Withholding Arrangements. The Administrator, in its discretion and pursuant to such procedures as it may specify from time to time, may permit a Participant to satisfy such tax withholding obligation, in whole or in part by (a) electing to have the Company withhold otherwise deliverable Shares, or (b) delivering to the Company already-owned Shares having a Fair Market Value equal to the minimum amount required to be withheld. The amount of the withholding requirement shall be deemed to include any amount which the Administrator agrees may be withheld at the time the election is made, not to exceed the amount determined by using the maximum federal, state or local marginal income tax rates applicable to the Participant with respect to the Award on the date that the amount of tax to be withheld is to be determined. The Fair Market Value of the Shares to be withheld or delivered shall be determined as of the date taxes are required to be withheld.

SECTION 13
LEGAL CONSTRUCTION

13.1 Liability of Company. The inability of the Company to obtain timely authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful grant or any Award or the issuance and sale of any Shares hereunder, shall relieve the Company, its officers, Directors and Employees of any liability in respect of the failure to grant such Award or to issue or sell such Shares as to which such requisite authority shall not have been obtained.

13.2 Grants Exceeding Allotted Shares. If the Shares covered by an Award exceed, as of the date of grant, the number of Shares, which may be issued under the Plan without additional shareholder approval, such Award shall be void with respect to such excess Shares, unless shareholder approval of an amendment sufficiently increasing the number of Shares subject to the Plan is timely obtained.

13.3 Gender and Number. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine; the plural shall include the singular and the singular shall include the plural.

13.4 Severability. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

13.5 Requirements of Law. The granting of Awards and the issuance of Shares under the Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

13.6 Securities Law Compliance. With respect to Section 16 Persons, transactions under this Plan are intended to comply with all applicable conditions of Rule 16b-3. To the extent any provision of the Plan, Award Agreement or action by the Administrator fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Administrator.

13.7 Compliance with Code Section 409A. The Plan and Awards under it are intended to comply with Code Section 409A to the extent subject thereto, and, accordingly, to the maximum extent permitted, the Plan will be interpreted and administered in a manner so that the Plan and Awards granted under it comply with Code Section 409A. References herein to ceasing to be a member of the Board and similar terms used in this Plan shall be deemed to refer to "separation from service" within the meaning of Code section 409A to the extent necessary to comply with Code Section 409A.

Notwithstanding any provision of this Plan to the contrary, if at the time of a Participant's separation from service, the Participant is a "specified employee" as defined in Code Section 409A and any Shares or amounts otherwise payable under this Plan as a result of such separation from service are subject to Code Section 409A, then no transfer or payment of such Shares or amounts shall be made until the date that is six months following the Participant's separation from service (or the earliest date as is permitted under Code Section 409A), and the Company will transfer or pay any Shares or amounts that are delayed under the foregoing on or before the first day of the month following the six month delay.

Notwithstanding anything to the contrary in the Plan, neither the Company, its Affiliates, the Administrator, the Board nor any Committee will have any obligation to take any action to prevent the assessment of any excise tax, interest or penalty on any Participant under Code Section 409A and neither the Company, its Affiliates, the Administrator, the Board nor any Committee will have any liability to any Participant for such tax, interest or penalty.

13.8 Governing Law. The Plan and all Award Agreements shall be construed in accordance with and governed by the internal laws of the State of California, without regard to principles of conflicts of laws, except to the extent that federal law is implied by the context or is otherwise required to be applied.

13.9 Captions. Captions are provided herein for convenience only, and shall not serve as a basis for interpretation or construction of the Plan.

SECTION 14
EXECUTION

IN WITNESS WHEREOF, the Company, by its duly authorized officer, has executed this Plan on the date set forth below.

Dated: May 20, 2014

PREFERRED BANK

By: /s/ Li Yu

Its: Chairman and CEO

Exhibit B
2024 Plan

2024 EQUITY INCENTIVE PLAN OF
Preferred Bank
a California state-chartered bank
(Effective [_____] , 2024)

Preferred Bank hereby adopts in its entirety the Preferred Bank 2024 Equity Incentive Plan (the “Plan”), on _____, 2024 (the “Plan Adoption Date”). Unless otherwise defined, terms with initial capital letters are defined in Section 2 below.

BACKGROUND AND PURPOSE

Background The Plan permits the grant of Nonqualified Stock Options, Incentive Stock Options, Stock Appreciation Rights (“SARs”), Stock Awards, and Restricted Stock Units.

Purpose of the Plan The Plan is intended to attract, motivate and retain the following individuals: (a) employees of the Company or its Affiliates; (b) directors of the Company or any of its Affiliates who are employees of neither the Company nor any Affiliate and (c) consultants who provide significant services to the Company or its Affiliates. The Plan is also designed to encourage stock ownership by such individuals, thereby aligning their interests with those of the Company’s shareholders.

DEFINITIONS

The following words and phrases shall have the following meanings unless a different meaning is plainly required by the context:

“**1934 Act**” means the Securities Exchange Act of 1934, as amended. Reference to a specific section of the Act shall include such section, any valid rules or regulations promulgated under such section, and any comparable provisions of any future legislation, rules or regulations amending, supplementing or superseding any such section, rule or regulation.

“**Administrator**” means, collectively the Board, and/or one or more Committees, and/or one or more executive officers of the Company designated by the Board to administer the Plan or specific portions thereof; provided, however, in the case where the Company is registered under Section 12 of the 1934 Act, Awards to non-employee directors may only be administered by a committee of Independent Directors (as defined in Section 2.22).

“**Affiliate**” means any corporation or any other entity (including, but not limited to, Subsidiaries, partnerships and joint ventures) controlling, controlled by, or under common control with the Company.

“**Applicable Law**” means the legal requirements relating to the administration of Options, SARs, Stock Awards and Restricted Stock Units and similar incentive plans under any applicable laws, including but not limited to federal and state employment, labor, privacy and securities laws, the Code, and applicable rules and regulations promulgated by the NASDAQ, New York Stock Exchange, American Stock Exchange or the requirements of any other stock exchange or quotation system upon which the Shares may then be listed or quoted.

“**Award**” means, individually or collectively, a grant under the Plan of Nonqualified Stock Options, Incentive Stock Options, SARs, Stock Awards and Restricted Stock Units.

“**Award Agreement**” means the written agreement setting forth the terms and provisions applicable to each Award granted under the Plan, including the Grant Date.

“**Board**” or “**Board of Directors**” means the Board of Directors of the Company.

“Change in Control” means the occurrence of any of the following:

(a) Any “person” (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becomes the “beneficial owner” (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company’s then outstanding voting securities;

(b) The consummation of a merger, consolidation, business combination, scheme of arrangement, share exchange or similar transaction involving the Company and any other corporation (“Business Combination”), other than a Business Combination which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such Business Combination; or

(c) The sale, lease, transfer, conveyance or other disposition, in one or a series of related transactions, of all or substantially all of the assets of the Company to any “person” or “group” (as such terms are used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act).

“Code” means the Internal Revenue Code of 1986, as amended. Reference to a specific section of the Code or regulation thereunder shall include such section or regulation, any valid regulation promulgated under such section, and any comparable provision of any future legislation or regulation amending, supplementing or superseding such section or regulation.

“Committee” means any committee appointed by the Board of Directors to administer the Plan.

“Common Stock” means the common stock of the Company.

“Company” means Preferred Bank or any successor thereto.

“Consultant” means any consultant, independent contractor or other person who provides significant services to the Company or its Affiliates or any employee or affiliate of any of the foregoing, but who is neither an Employee nor a Director.

“Continuous Status” as an Employee, Consultant or Director means that a Participant’s employment or service relationship with the Company or any Affiliate is not interrupted or terminated. “Continuous Status” shall not be considered interrupted in the following cases: (i) any leave of absence approved by the Company any Affiliate; (ii) transfers between locations of the Company or any Affiliate; or (iii) transfers among the Company, any Affiliate or successor. A leave of absence approved by the Company shall include sick leave, military leave or any other personal leave approved by an authorized representative of the Company. For purposes of Incentive Stock Options, no leave of absence may exceed ninety (90) days, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If such reemployment is approved by the Company but not guaranteed by statute or contract, then such employment will be considered terminated on the ninety-first (91st) day of such leave and on such date any Incentive Stock Option held by the Participant shall cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Nonqualified Stock Option. In the event a Participant’s status changes among the positions of Employee, Director and Consultant, the Participant’s Continuous Status as an Employee, Director or Consultant shall not be considered terminated solely as a result of any such changes in status.

“Director” means any individual who is a member of the Board of Directors of the Company or an Affiliate of the Company.

“Disability” means a permanent and total disability within the meaning of Section 22(e)(3) of the Code, provided that in the case of Awards other than Incentive Stock Options, the Administrator in its discretion may determine whether a permanent and total disability exists in accordance with uniform and non-discriminatory standards adopted by the Administrator from time to time.

“Employee” means any individual who is a common-law employee of the Company or of an Affiliate.

“Exercise Price” means the price at which a Share may be purchased by a Participant pursuant to the exercise of an Option, and the price used to determine the number of Shares payable to a Participant upon the exercise of a SAR.

“Fair Market Value” means, as of any date, provided the Common Stock is listed on an established stock exchange or a national market system, including without limitation the Nasdaq National Market of the National Association of Securities Dealers, Inc. Automated Quotation (“NASDAQ”) System, the Fair Market Value of a share of Common Stock shall be the closing sales price for such stock on the Grant Date of the Award. If no sales were reported on such Grant Date of the Award, the Fair Market Value of a share of Common Stock shall be the closing price for such stock as quoted on the NASDAQ (or the exchange with the greatest volume of trading in the Common Stock) on the last market trading day with reported sales prior to the date of determination. In the case where the Company is not listed on an established stock exchange or national market system, Fair Market Value shall be determined by the Board in good faith in accordance with Code Section 409A and the applicable Treasury regulations.

“Fiscal Year” means a fiscal year of the Company.

“Grant Date” means the date the Administrator approves the Award.

“Incentive Stock Option” means an Option to purchase Shares, which is designated as an Incentive Stock Option and is intended to meet the requirements of Section 422 of the Code.

“Independent Director” means a Nonemployee Director who is (i) a “nonemployee director” within the meaning of Section 16b-3 of the 1934 Act, and (ii) “independent” as determined under the applicable rules of the NASDAQ, as any of these definitions may be modified or supplemented from time to time.

“Misconduct” shall include commission of any act contrary or harmful to the interests of the Company (or any Affiliate) and shall include, without limitation: (a) conviction of a felony or crime involving moral turpitude or dishonesty, (b) violation of Company (or any Affiliate) policies, with or acting against the interests of the Company (or any Affiliate), including employing or recruiting any present, former or future employee of the Company (or any Affiliate), (c) misuse of any confidential, secret, privileged or non-public information relating to the Company’s (or any Affiliate’s) business, or (e) participating in a hostile takeover attempt of the Company or an Affiliate. The foregoing definition shall not be deemed to be inclusive of all acts or omissions that the Company (or any Affiliate) may consider as Misconduct for purposes of the Plan.

“Nonemployee Director” means a Director who is not employed by the Company or an Affiliate.

“Nonqualified Stock Option” means an option to purchase Shares that is not intended to be an Incentive Stock Option.

“Option” means an Incentive Stock Option or a Nonqualified Stock Option.

“Participant” means an Employee, Nonemployee Director or Consultant who has an outstanding Award.

“Period of Restriction” means the period during which the transfer of Shares are subject to restrictions that subject the Shares to a substantial risk of forfeiture. As provided in Section 7, such restrictions may be based on the passage of time, the achievement of Performance Goals, or the occurrence of other events as determined by the Administrator, in its discretion.

“Plan” means this Preferred Bank 2024 Equity Incentive Plan, as set forth in this instrument and as hereafter amended from time to time.

“Restricted Stock Units” means an Award granted to a Participant pursuant to Section 8. An Award of Restricted Stock Units constitutes a promise to deliver to a Participant a specified number of Shares, or the equivalent value in cash, upon satisfaction of the vesting requirements set forth in the Award Agreement. Each Restricted Stock Unit represents the right to receive one Share or the equivalent value in cash.

“Rule 16b-3” means a person promulgated under the 1934 Act, and any future regulation amending, supplementing or superseding such regulation.

“SEC” means the U.S. Securities and Exchange Commission.

“Section 16 Person” means a person who, with respect to the Shares, is subject to Section 16 of the 1934 Act.

“Shares” means shares of Common Stock of the Company.

“Stock Appreciation Right” or “SAR” means an Award granted to a Participant pursuant to Section 6. Upon exercise, a SAR gives a Participant a right to receive a payment in cash, or the equivalent value in Shares, equal to the difference between the Fair Market Value of the Shares on the exercise date and the Exercise Price. Both the number of SARs and the Exercise Price are determined on the Grant Date. For example, assume a Participant is granted 100 SARs at an Exercise Price of \$10 and the award agreement specifies that the net gain will be settled in Shares. Also assume that the SARs are exercised when the underlying Shares have a Fair Market Value of \$20 per Share. Upon exercise of the SAR, the Participant is entitled to receive 50 Shares $[(\$20-\$10)*100]/\$20$.

“Stock Awards” means an Award granted to a Participant pursuant to Section 7. A Stock Award constitutes a transfer of ownership of Shares to a Participant from the Company. Such transfer may be subject to restrictions against transferability, assignment, and hypothecation. Under the terms of the Award, the restrictions against transferability are removed when the Participant has met the specified vesting requirement. Shares granted pursuant to Stock Awards shall vest immediately upon the lapsing of the applicable Period of Restriction (if any). Stock Awards may also be granted without any restrictions or vesting requirements. Vesting may be based on continued employment or service over a stated service period, or on the attainment of specified Performance Goals. If employment or service is terminated prior to vesting, the unvested Shares revert back to the Company.

“Subsidiary” means any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

ADMINISTRATION

The Administrator. The Administrator shall be appointed by the Board of Directors from time to time.

Authority of the Administrator. It shall be the duty of the Administrator to administer the Plan in accordance with the Plan’s provisions and in accordance with Applicable Law. The Administrator shall have all powers and discretion necessary or appropriate to administer the Plan and to control its operation, including, but not limited to, the power to determine the following: (a) which Employees, Nonemployee Directors and Consultants shall be granted Awards; (b) the terms, conditions and the amendment of Awards, including the express power to amend an Award to include a provision to, subject to Section 10.2, reduce the Exercise Price of any outstanding Option or other Award after the Grant Date; (c) interpretation of the Plan; (d) adoption of rules for the administration, interpretation and application of the Plan as are consistent therewith; and (e) interpretation, amendment or revocation of any such rules; provided, however, any amendment of an outstanding Award to accelerate vesting shall require the unanimous approval of the Board.

Delegation by the Administrator. The Administrator, in its discretion and on such terms and conditions as it may provide, may delegate all or any part of its authority and powers under the Plan to one or more Directors; provided, however, in the case where the Company is registered under Section 12 of the 1934 Act, the Administrator may not delegate its authority and powers (a) with respect to Section 16 Persons, or (b) in any way which would jeopardize the Plan’s qualification under Rule 16b-3.

Decisions Binding. All determinations and decisions made by the Administrator, the Board and any delegate of the Administrator pursuant to the provisions of the Plan shall be final, conclusive and binding on all persons, and shall be given the maximum deference permitted by Applicable Law.

SHARES SUBJECT TO THE PLAN

Number of Shares. Subject to adjustment, as provided in Section 4.3, the total number of Shares available for grant under the Plan shall be six hundred and Seventy thousand (670,000). Shares granted under the Plan may be authorized but unissued Shares or reacquired Shares bought on the market or otherwise.

Lapsed Awards. If any Award made under the Plan are forfeited, the Shares underlying such Awards shall become available for future Awards under the Plan. For avoidance of doubt, any Shares underlying an Award that lapse unissued as a result of a cashless exercise of an Option or SAR Award or from the net issuance of Shares to settle tax withholding shall forever lapse and shall not become available for future Awards under the Plan.

Adjustments in Awards and Authorized Shares. The number of Shares covered by each outstanding Award, and the per Share exercise price of each such Award, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, recapitalization, combination, reclassification, the payment of a stock dividend on the Common Stock or any other increase or decrease in the number of such Shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been “effected without receipt of consideration.” Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issue by the Company of Shares of stock of any class, or securities convertible into Shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Option.

Legal Compliance. Shares shall not be issued pursuant to the making or exercise of an Award unless the exercise of Options and rights and the issuance and delivery of Shares shall comply with the Securities Act of 1933, as amended, the 1934 Act and other Applicable Law, and shall be further subject to the approval of counsel for the Company with respect to such compliance. Any Award made in violation hereof shall be null and void.

Investment Representations. As a condition to the exercise of an Option or other right, the Company may require the person exercising such Option or right to represent and warrant at the time of exercise that the Shares are being acquired only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

STOCK OPTIONS

The provisions of this Section 5 are applicable to Options granted to Employees, Nonemployee Directors and Consultants. Such Participants shall also be eligible to receive other types of Awards as set forth in the Plan.

Grant of Options. Subject to the terms and provisions of the Plan, Options may be granted at any time and from time to time as determined by the Administrator in its discretion. The Administrator may grant Incentive Stock Options, Nonqualified Stock Options, or a combination thereof, and the Administrator, in its discretion and subject to Section 4.1, shall determine the number of Shares subject to each Option.

Award Agreement. Each Option shall be evidenced by an Award Agreement that shall specify the Exercise Price, the expiration date of the Option, the number of Shares to which the Option pertains, any conditions to exercise the Option, and such other terms and conditions as the Administrator, in its discretion, shall determine; provided, however, in no event may an Option granted under the Plan be exercisable within twelve (12) months of the date of grant. The Award Agreement shall also specify whether the Option is intended to be an Incentive Stock Option or a Nonqualified Stock Option.

Exercise Price. The Administrator shall determine the Exercise Price for each Option subject to the provisions of this Section 5.3.

Nonqualified Stock Options. Unless otherwise specified in the Award Agreement, in the case of a Nonqualified Stock Option, the per Share exercise price shall not be less than one hundred percent (100%) of the Fair Market Value of a Share on the Grant Date, as determined by the Administrator.

Incentive Stock Options. The grant of Incentive Stock Options shall be subject to the following limitations:

The Exercise Price of an Incentive Stock Option shall be not less than one hundred percent (100%) of the Fair Market Value of a Share on the Grant Date; provided, however, that if on the Grant Date, the Employee (together with persons whose stock ownership is attributed to the Employee pursuant to Section 424(d) of the Code) owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any of its Subsidiaries, the Exercise Price shall be not less than one hundred and ten percent (110%) of the Fair Market Value of a Share on the Grant Date;

Incentive Stock Options may be granted only to persons who are, as of the Grant Date, Employees of the Company or any Affiliate, and may not be granted to Consultants or Nonemployee Directors. In the event the Company fails to obtain shareholder approval of the Plan within twelve (12) months from the Plan Adoption Date, all Options granted under this Plan

designated as Incentive Stock Options shall become Nonqualified Stock Options and shall be subject to the provisions of this Section 5 applicable to Nonqualified Stock Options.

To the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Participant during any calendar year (under all plans of the Company and any parent or any Affiliate) exceeds \$100,000, such Options shall be treated as Nonqualified Stock Options. For purposes of this Section 5.3.2(c), Incentive Stock Options shall be taken into account in the order in which they were granted. The Fair Market Value of the Shares shall be determined as of the time the Option with respect to such Shares is granted; and

In the event of a Participant's change of status from Employee to Consultant or Director, an Incentive Stock Option held by the Participant shall cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Nonqualified Stock Option three (3) months and one (1) day following such change of status.

Substitute Options. Notwithstanding the provisions of Sections 5.3.1 and 5.3.2, in the event that the Company or an Affiliate consummates a transaction described in Section 424(a) of the Code (e.g., the acquisition of property or stock from an unrelated corporation), persons who become Employees, Nonemployee Directors or Consultants on account of such transaction may be granted Options in substitution for options granted by their former employer, and such Options may be granted with an Exercise Price less than the Fair Market Value of a Share on the Grant Date; provided, however, the grant of such substitute Option shall not constitute a "modification" as defined in Code Section 424(h)(3) and the applicable Treasury regulations.

Expiration of Options

Expiration Dates. Unless otherwise specified in an Award Agreement, each Option shall immediately terminate on the date a Participant ceases his/her/its Continuous Status as an Employee, Director or Consultant with respect to the Shares that have not "vested." With respect to the "vested" Shares underlying a Participant's Option, unless otherwise specified in the Award Agreement, each Option shall terminate no later than the first to occur of the following events:

Date in Award Agreement. The date for termination of the Option set forth in the written Award Agreement;

Termination of Continuous Status as Employee, Nonemployee Director or Consultant. The last day of the three (3)-month period following the date the Participant ceases his/her/its Continuous Status as an Employee, Nonemployee Director or Consultant (other than termination for a reason described in subsections (c), (d), (e), or (f) below);

Misconduct. In the event a Participant's Continuous Status as an Employee, Director or Consultant terminates because the Participant has performed an act of Misconduct as determined by the Administrator, all unexercised Options held by such Participant shall expire five (5) business days following written notice from the Company to the Participant; provided, however, that the Administrator may, in its sole discretion, prior to the expiration of such five (5) business day period, reinstate the Options by giving written notice of such reinstatement to Participant. In the event of such reinstatement, the Participant may exercise the Option only to such extent, for such time, and upon such terms and conditions as if the Participant had ceased to be employed by or affiliated with the Company or any Affiliate upon the date of such termination for a reason other than Misconduct, disability or death;

Disability. In the event that a Participant's Continuous Status as an Employee, Director or Consultant terminates as a result of the Participant's Disability, the Participant may exercise his or her Option at any time within twelve (12) months from the date of such termination, but only to the extent that the Participant was entitled to exercise it at the date of such termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). If, at the date of termination, the Participant is not entitled to exercise his or her entire Option, the Shares covered by the unexercisable portion of the Option shall revert to the Plan. If, after termination, the Participant does not exercise his or her Option within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan;

Death. In the event of the death of a Participant, the Participant's Option may be exercised at any time within twelve (12) months following the date of death (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement), by the Participant's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent that the Participant was entitled to exercise the Option at the date of death. If, at the time of death, the Participant was not entitled to exercise his or her entire Option, the Shares covered by the unexercisable portion of

the Option shall immediately revert to the Plan. If, after death, the Participant's estate or a person who acquired the right to exercise the Option by bequest or inheritance does not exercise the Option within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan; or

10 Years from Grant. An Option shall expire no more than ten (10) years from the Grant Date; provided, however, that if an Incentive Stock Option is granted to an Employee who, together with persons whose stock ownership is attributed to the Employee pursuant to Section 424(d) of the Code, owns stock possessing more than 10% of the total combined voting power of all classes of the stock of the Company or any of its Subsidiaries, such Incentive Stock Option may not be exercised after the expiration of five (5) years from the Grant Date.

Administrator Discretion. Notwithstanding the foregoing the Administrator may, after an Option is granted, extend the exercise period that an Option is exercisable following a Participant's termination of employment (subject to limitations applicable to Incentive Stock Options); provided, however that such extension does not exceed the maximum term of the Option.

Exercisability of Options. Options granted under the Plan shall be exercisable at such times and be subject to such restrictions as set forth in the Award Agreement and conditions as the Administrator shall determine in its discretion. After an Option is granted, the Administrator, in its discretion, may accelerate the exercisability of the Option.

Exercise and Payment. Options shall be exercised by the Participant's delivery of a written notice of exercise to the Secretary of the Company (or its designee), setting forth the number of Shares with respect to which the Option is to be exercised, accompanied by full payment for the Shares

Form of Consideration. Upon the exercise of any Option, the Exercise Price shall be payable to the Company in full in cash or its equivalent. The Administrator, in its discretion, also may permit the exercise of Options and same-day sale of related Shares, or exercise by tendering previously acquired Shares having an aggregate Fair Market Value at the time of exercise equal to the total Exercise Price, or by any other means which the Administrator, in its discretion, determines to provide legal consideration for the Shares, and to be consistent with the purposes of the Plan.

Delivery of Shares. As soon as practicable after receipt of a written notification of exercise and full payment for the Shares purchased, the Company shall deliver to the Participant (or the Participant's designated broker), Share certificates (which may be in book entry form) representing such Shares.

STOCK APPRECIATION RIGHTS

Grant of SARs. Subject to the terms of the Plan, a SAR may be granted to Employees, Nonemployee Directors and Consultants at any time and from time to time as shall be determined by the Administrator.

Number of Shares. The Administrator shall have complete discretion to determine the number of SARs granted to any Participant.

Exercise Price and Other Terms. The Administrator, subject to the provisions of the Plan, shall have discretion to determine the terms and conditions of SARs granted under the Plan, including whether upon exercise the SARs will be settled in Shares or cash. However, the Exercise Price of a SAR shall be not less than one hundred percent (100%) of the Fair Market Value of a Share on the Grant Date.

Exercise of SARs. SARs granted under the Plan shall be exercisable at such times and be subject to such restrictions as set forth in the Award Agreement and conditions as the Administrator shall determine in its discretion. After an SAR is granted, the Administrator, in its discretion, may accelerate the exercisability of the SAR; provided, however, in no event may a SAR granted under the Plan be exercisable within twelve (12) months of the date of grant.

SAR Agreement. Each SAR grant shall be evidenced by an Award Agreement that shall specify the Exercise Price, the term of the SAR, the conditions of exercise and such other terms and conditions as the Administrator shall determine.

Expiration of SARs. A SAR granted under the Plan shall expire upon the date determined by the Administrator in its discretion as set forth in the Award Agreement, or otherwise pursuant to the provisions relating to the expiration of Options as set forth in Section 5.4.

Payment of SAR Amount. Upon exercise of a SAR, a Participant shall be entitled to receive (whichever is specified in the Award Agreement) from the Company either (a) a cash payment in an amount equal to (x) the difference between the Fair Market Value of a Share on the date of exercise and the SAR Exercise Price, multiplied by (y) the number of Shares with respect to which the SAR is exercised, or (b) a number of Shares by dividing such cash amount by the Fair Market Value of a Share on the exercise date. If the Administrator designates in the Award Agreement that the SAR will be settled in cash, upon Participant's exercise of the SAR the Company shall make a cash payment to Participant as soon as reasonably practical.

STOCK AWARDS

Grant of Stock Awards. Subject to the terms and provisions of the Plan, the Administrator, at any time and from time to time, may grant Stock Awards to Employees, Nonemployee Directors and Consultants in such amounts as the Administrator, in its discretion, shall determine. The Administrator shall determine the number of Shares to be granted to each Participant and the purchase price (if any) to be paid by the Participant for such Shares.

Stock Agreement. Each Stock Award shall be evidenced by an Award Agreement that shall specify the terms of the grant, including the Period of Restriction that applies to such grant, the conditions that must be satisfied for the Period of Restriction to lapse, and such other terms and conditions as the Administrator, in its discretion, shall determine. Unless the Administrator determines otherwise, Shares granted pursuant to Stock Awards shall be held by the Company as escrow agent until the Period of Restriction has lapsed.

Transferability. Shares granted pursuant to a Stock Award may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until expiration of the applicable Period of Restriction (if any).

Restrictions. In its sole and absolute discretion, the Administrator may set restrictions based on a Participant's Continuous Status as Employee, Nonemployee Director or Consultant or the achievement of specific Performance Goals (Company-wide, business unit, or individual), or any other basis determined by the Administrator in its discretion; provided, however, subject to forfeiture, each Stock Award granted under the Plan must have a minimum restriction requiring no less than twelve (12) months of Continuous Status as Employee, Nonemployee Director or Consultant.

Legend on Certificates. The Administrator, in its discretion, may place a legend or legends on the Share certificates to give appropriate notice of such restrictions in the case the Shares are not held by the Company in escrow.

Release of Shares. Shares granted pursuant to Stock Awards shall be released from escrow as soon as practicable after expiration of the Period of Restriction. At such time, the Participant shall be entitled to have any legend or legends under Section 7.5 removed from his or her Share certificate, and the Shares shall be freely transferable by the Participant, subject to Applicable Law.

Voting Rights. During any Period of Restriction, Participants holding Shares granted pursuant this Section 7 may exercise full voting rights with respect to those Shares, unless otherwise provided in the Award Agreement.

Dividends and Other Distributions. During any Period of Restriction, Participants holding Shares granted pursuant to this Section 7 shall be entitled to receive all dividends and other distributions paid with respect to such Shares unless otherwise provided in the Award Agreement. If any such dividends or distributions are paid, the distributed cash and/or Shares shall be subject to the same restrictions with regard to payment, transferability and forfeitability as the Shares with respect to which they were paid (i.e., the same vesting requirements shall apply to any distributions that apply to the underlying Shares under which the distributions are being made).

Return of Stock to Company. On the date that any forfeiture event set forth in the Award Agreement occurs, the Stock for which restrictions have not lapsed shall revert to the Company and again shall become available for grant under the Plan.

RESTRICTED STOCK UNITS

Grant of Restricted Stock Units. Subject to the terms and conditions of the Plan, Restricted Stock Units may be granted to Employees, Nonemployee Directors and Consultants at any time and from time to time, as shall be determined by the Administrator in its sole and absolute discretion.

Number of Restricted Stock Units. The Administrator will have complete discretion in determining the number of Restricted Stock Units granted to any Participant under an Award Agreement, subject to the limitations in Sections 4.1.

Value of a Restricted Stock Unit. Each Restricted Stock Unit granted under an Award Agreement represents the right to receive one Share, or the equivalent value in cash, upon satisfaction of the vesting conditions specified in the Award Agreement.

Vesting Conditions. In its sole and absolute discretion, the Administrator will set the vesting provisions, which may include any combination of time-based or performance-based vesting conditions; provided, however, subject to forfeiture, each Restricted Stock Unit granted under the Plan must have a minimum restriction requiring no less than twelve (12) months of Continuous Status as Employee, Nonemployee Director or Consultant. The Administrator, in its discretion, may at any time accelerate the vesting of a Participant's Restricted Stock Units and provide for immediate payment in accordance with Section 8.3.

Form and Timing of Payment. The Administrator shall specify in the Award Agreement whether the Restricted Stock Units shall be settled in Shares or cash. In either case, upon vesting payment will be made as soon as reasonably practical upon satisfaction of the vesting conditions.

Cancellation of Restricted Stock Units. On the earlier of the cancellation date set forth in the Award Agreement or upon the termination of Participant's Continuous Status as an Employee, Nonemployee Director or Consultant, all unvested Restricted Stock Units will be forfeited to the Company, and again will be available for grant under the Plan.

MISCELLANEOUS

Change In Control. In the event of a Change in Control, unless an outstanding Award is assumed or fairly substituted by the successor corporation, then (i) such Awards shall become fully exercisable as of the date of the Change in Control, whether or not otherwise then exercisable and (ii) the Period of Restriction applicable to an Award shall immediately lapse as of the date of the Change in Control. Notwithstanding the foregoing, unless otherwise specifically prohibited under applicable laws, or by the rules and regulations of any governing governmental agencies or national securities exchanges, the Committee may provide in the Award Agreement for immediate vesting and lapsing of the Period of Restriction upon or following the occurrence of a Change in Control.

Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator shall notify each Participant as soon as practicable prior to the effective date of such proposed transaction. Notwithstanding anything to the contrary contained in this Plan or in any Award Agreement, the Participant shall have the right to exercise his or her Award for a period not less than ten (10) days immediately prior to such dissolution or transaction as to all of the Shares covered thereby, including Shares as to which the Award would not otherwise be exercisable.

No Effect on Employment or Service. Nothing in the Plan shall interfere with or limit in any way the right of the Company or an Affiliate to terminate any Participant's employment or service at any time, with or without cause. Unless otherwise provided by written contract, employment or service with the Company or any of its Affiliates is on an at-will basis only. Additionally, the Plan shall not confer upon any Director any right with respect to continuation of service as a Director or nomination to serve as a Director, nor shall it interfere in any way with any rights which such Director or the Company may have to terminate his or her directorship at any time.

Participation. No Employee, Consultant or Nonemployee Director shall have the right to be selected to receive an Award under this Plan, or, having been so selected, to be selected to receive a future Award.

Successors. All obligations of the Company under the Plan, with respect to Awards granted hereunder, shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation or, otherwise, sale or disposition of all or substantially all of the business or assets of the Company.

Beneficiary Designations. If permitted by the Administrator, a Participant under the Plan may name a beneficiary or beneficiaries to whom any vested but unpaid Award shall be paid in the event of the Participant's death. Each such designation shall revoke all prior designations by the Participant and shall be effective only if given in a form and manner acceptable to the Administrator. In the absence of any such designation, any vested benefits remaining unpaid at the Participant's death shall be paid to the Participant's estate and, subject to the terms of the Plan and of the applicable Award Agreement, any unexercised vested Award may be exercised by the administrator or executor of the Participant's estate.

Limited Transferability of Awards. No Award granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. All rights with respect to an Award granted to a Participant shall be available during his or her lifetime only to the Participant. Notwithstanding the foregoing, the Participant may, in a manner specified by the Administrator, (a) transfer a Nonqualified Stock Option to a Participant's spouse, former spouse or dependent pursuant to a court-approved domestic relations order which relates to the provision of child support, alimony payments or marital property rights and (b) transfer a Nonqualified Stock Option by bona fide gift and not for any consideration to (i) a member or members of the Participant's immediate family, (ii) a trust established for the exclusive benefit of the Participant and/or member(s) of the Participant's immediate family, (iii) a partnership, limited liability company of other entity whose only partners or members are the Participant and/or member(s) of the Participant's immediate family or (iv) a foundation in which the Participant and/or member(s) of the Participant's immediate family control the management of the foundation's assets.

Restrictions on Share Transferability. The Administrator may impose such restrictions on any Shares acquired pursuant to the exercise of an Award as it may deem advisable, including, but not limited to, restrictions related to applicable federal securities laws, the requirements of any national securities exchange or system upon which Shares are then listed or traded or any blue sky or state securities laws.

Transfers Upon a Change in Control. In the sole and absolute discretion of the Administrator, an Award Agreement may provide that in the event of certain Change in Control events, which may include any or all of the Change in Control events described in Section 2.8, Shares obtained pursuant to this Plan shall be subject to certain rights and obligations, which include but are not limited to the following: (i) the obligation to vote all such Shares in favor of such Change in Control transaction, whether by vote at a meeting of the Company's shareholders or by written consent of such shareholders; (ii) the obligation to sell or exchange all such Shares and all rights to acquire Shares, under this Plan pursuant to the terms and conditions of such Change in Control transaction; (iii) the right to transfer less than all but not all of such Shares pursuant to the terms and conditions of such Change in Control transaction, and (iv) the obligation to execute all documents and take any other action reasonably requested by the Company to facilitate the consummation of such Change in Control transaction.

AMENDMENT, SUSPENSION, AND TERMINATION

Amendment, Suspension, or Termination. Except as provided in Section 10.2, the Board, in its sole discretion, may amend, suspend or terminate the Plan, or any part thereof, at any time and for any reason. The amendment, suspension or termination of the Plan shall not, without the consent of the Participant, alter or impair any rights or obligations under any Award theretofore granted to such Participant. No Award may be granted during any period of suspension or after termination of the Plan.

No Amendment without Shareholder Approval. The Company shall obtain shareholder approval of any material Plan amendment to the extent necessary or desirable to comply with the rules of the NASDAQ, the Exchange Act, Section 422 of the Code, or other Applicable Law.

Plan Effective Date and Duration of Awards. The Plan shall be effective as of the Plan Effective Date, subject to the shareholders of the Company approving the Plan by the required vote, subject to Sections 10.1 and 10.2 (regarding the Board's right to amend or terminate the Plan), and shall remain in effect thereafter. However, without further shareholder approval, no Award may be granted under the Plan more than ten (10) years after the Plan Adoption Date.

TAX WITHHOLDING

Withholding Requirements. Prior to the delivery of any Shares or cash pursuant to an Award (or exercise thereof), the Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy federal, state, and local taxes (including the Participant's FICA obligation) required to be withheld with respect to such Award (or exercise thereof).

Withholding Arrangements. The Administrator, in its discretion and pursuant to such procedures as it may specify from time to time, may permit a Participant to satisfy such tax withholding obligation, in whole or in part by (a) electing to have the Company withhold otherwise deliverable Shares or (b) delivering to the Company already-owned Shares having a Fair Market Value equal to the minimum amount required to be withheld. The amount of the withholding requirement shall be deemed to include any amount which the Administrator agrees may be withheld at the time the election is made; provided, however, in the case Shares are withheld by the Company to satisfy the tax withholding that would otherwise be issued to the Participant, the amount of such tax withholding shall be determined by applying the statutory minimum federal, state or local income tax rates applicable to the Participant with respect to the Award on the date that the amount of tax to be withheld is to be determined. The Fair Market Value of the Shares to be withheld or delivered shall be determined as of the date taxes are required to be withheld.

LEGAL CONSTRUCTION

Liability of Company. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful grant or any Award or the issuance and sale of any Shares hereunder, shall relieve the Company, its officers, Directors and Employees of any liability in respect of the failure to grant such Award or to issue or sell such Shares as to which such requisite authority shall not have been obtained.

Grants Exceeding Allotted Shares. If the Shares covered by an Award exceed, as of the date of grant, the number of Shares, which may be issued under the Plan without additional shareholder approval, such Award shall be void with respect to such excess Shares, unless shareholder approval of an amendment sufficiently increasing the number of Shares subject to the Plan is timely obtained.

Gender and Number. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine; the plural shall include the singular and the singular shall include the plural.

Severability. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

Requirements of Law. The granting of Awards and the issuance of Shares under the Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

Governing Law. The Plan and all Award Agreements shall be construed in accordance with and governed by the laws of the State of California.

Captions. Captions are provided herein for convenience only, and shall not serve as a basis for interpretation or construction of the Plan.

EXECUTION

IN WITNESS WHEREOF, the Company, by its duly authorized officer, has executed this Plan on the date indicated below.

Preferred Bank

Dated: [], 2024

By: _____