PACWEST BANCORP
Form 10-Q
May 11, 2009

Use these links to rapidly review the document
TABLE OF CONTENTS

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

ý **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2009

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number: 00-30747

PACWEST BANCORP

(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	**33-0885320** (I.R.S. Employer Identification Number)
401 West "A" Street **San Diego, California** (Address of principal executive offices)	**92101** (Zip Code)

(619) 233-5588
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer ý	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

As of May 5, 2009 there were 31,066,796 shares of the registrant's common stock outstanding, excluding 1,245,140 shares of unvested restricted stock.

TABLE OF CONTENTS

See "Notes to Unaudited Condensed Consolidated Financial Statements."

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. Unaudited Condensed Consolidated Financial Statements

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2009	December 31, 2008
	(Dollars in thousands, except share data)	
Assets:		
Cash and due from banks	$ 118,009	$ 100,925
Federal funds sold		165
Total cash and cash equivalents	118,009	101,090
Interest-bearing deposits in financial institutions	95,758	58,780
Investments:		
Federal Home Loan Bank stock, at cost	33,782	33,782
Securities available-for-sale (amortized cost of $137,531 at March 31, 2009 and $119,074 at December 31, 2008)	141,106	121,577
Total investments	174,888	155,359
Loans, net of unearned income	3,924,285	3,987,891
Less allowance for loan losses	(71,361)	(63,519)
Net loans	3,852,924	3,924,372
Premises and equipment, net	24,202	24,675
Other real estate owned, net	47,673	41,310
Accrued interest receivable	14,939	15,976
Core deposit and customer relationship intangibles	37,675	39,922
Cash surrender value of life insurance	66,198	70,588
Other assets	63,804	63,430
Total assets	$4,496,070	$ 4,495,502
Liabilities and Stockholders' Equity:		
Deposits:		
Noninterest-bearing	$1,223,884	$ 1,165,485
Interest-bearing	2,176,932	2,309,730
Total deposits	3,400,816	3,475,215
Accrued interest payable and other liabilities	46,302	64,567
Borrowings	450,000	450,000
Subordinated debentures	129,946	129,994
Total liabilities	4,027,064	4,119,776
Stockholders' equity:		
Preferred stock, $0.01 par value. Authorized 5,000,000 shares; none issued and outstanding		
Common stock, $0.01 par value. Authorized 50,000,000 shares; 32,369,335 shares issued at March 31, 2009 and 28,528,466 shares	323	285

issued at December 31, 2008 (includes 1,267,405 and 1,309,586 shares of unvested restricted stock, respectively)		
Capital surplus	1,001,743	909,922
Retained earnings (accumulated deficit)	(534,231)	(535,676)
Treasury stock, at cost 42,830 shares at March 31, 2009 and 12,360 shares at December 31, 2008	(903)	(257)
Accumulated other comprehensive income unrealized gain on securities available-for-sale, net	2,074	1,452
Total stockholders' equity	469,006	375,726
Total liabilities and stockholders' equity	$4,496,070	$ 4,495,502

See "Notes to Unaudited Condensed Consolidated Financial Statements."

Table of Contents

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

	Quarter Ended		
	March 31, 2009	December 31, 2008	March 31, 2008
	(In thousands, except per share data)		
Interest income:			
Interest and fees on loans	$ 61,847	$ 66,507	$ 75,653
Interest on federal funds sold		75	40
Interest on deposits in financial institutions	61	176	3
Interest on investment securities	1,546	1,707	1,701
Total interest income	63,454	68,465	77,397
Interest expense:			
Deposits	9,320	11,416	11,821
Borrowings	3,582	4,217	5,307
Subordinated debentures	1,779	2,107	2,409
Total interest expense	14,681	17,740	19,537
Net interest income before provision for credit losses	48,773	50,725	57,860
Provision for credit losses	14,000	8,800	26,000
Net interest income after provision for credit losses	34,773	41,925	31,860
Noninterest income:			
Service charges on deposit accounts	3,149	3,420	3,224
Other commissions and fees	1,685	2,062	1,519
Gain on sale of loans, net			269
Increase in cash surrender value of life insurance	439	584	587
Other income	808	476	870
Total noninterest income	6,081	6,542	6,469
Noninterest expense:			
Compensation	19,331	15,088	18,846
Occupancy	5,246	5,273	4,731
Furniture and equipment	1,140	1,137	1,139
Data processing	1,628	1,590	1,543
Other professional services	1,524	1,688	1,415
Business development	725	789	756
Communications	693	766	824
Insurance and assessments	1,598	1,148	540
Other real estate owned, net	997	748	(26)
Intangible asset amortization	2,247	2,332	2,530
Reorganization and lease charges	1,215		
Goodwill write-off			275,000
Other	2,625	3,260	2,914
Total noninterest expense	38,969	33,819	310,212
Earnings (loss) before income taxes	1,885	14,648	(271,883)
Income taxes	440	5,027	840

Net earnings (loss)	$	1,445	$	9,621	$	(272,723)
Number of outstanding shares (weighted average):						
Basic		30,495.2		27,202.9		27,145.2
Diluted		30,495.7		27,203.7		27,145.2
Earnings (loss) per share:						
Basic	$	0.04	$	0.34	$	(10.05)
Diluted	$	0.04	$	0.34	$	(10.05)
Dividends declared per share	$	0.32	$	0.32	$	0.32

See "Notes to Unaudited Condensed Consolidated Financial Statements."

Table of Contents

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Quarter Ended March 31,	
	2009	2008
	(Dollars in thousands)	
Net earnings (loss)	$ 1,445	$ (272,723)
Other comprehensive income, net of related income taxes:		
Unrealized holding gains on securities available-for-sale arising during the period	622	563
Comprehensive net income (loss)	$ 2,067	$ (272,160)

See "Notes to Unaudited Condensed Consolidated Financial Statements."

Table of Contents

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	Common Stock					Accumulated Other	
	Shares	Par Value	Capital Surplus	(Accumulated Deficit)	Treasury Stock	Comprehensive Income	Total
	(Dollars in thousands, except share data)						
Balance at December 31, 2008	28,516,106	$ 285	$ 909,922	$ (535,676)	$ (257)	$ 1,452	$375,726
Net earnings				1,445			1,445
Issuance of common stock	3,846,153	38	99,962				100,000
Tax effect from vesting of restricted stock			(174)				(174)
Restricted stock awarded and earned stock compensation, net of shares forfeited	(5,284)		2,199				2,199
Restricted stock and DDCP shares surrendered	(30,470)				(646)		(646)
Cash dividends paid ($0.32 per share)			(10,166)				(10,166)
Other comprehensive income increase in net unrealized gain on securities available-for-sale, net of tax effect of $450 thousand						622	622
Balance at March 31, 2009	32,326,505	$ 323	$1,001,743	$ (534,231)	$ (903)	$ 2,074	$469,006

See "Notes to Unaudited Condensed Consolidated Financial Statements."

Table of Contents

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Quarter Ended March 31,	
	2009	2008
	(Dollars in thousands)	
Cash flows from operating activities:		
Net earnings (loss)	$ 1,445	$ (272,723)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Goodwill write-off		275,000
Depreciation and amortization	3,619	3,739
Provision for credit losses	14,000	26,000
Loss (gain) on sale of other real estate owned	37	(98)
Other real estate owned valuation adjustment	534	
Loss (gain) on sale of loans		(269)
Gain on sale of premises and equipment	(19)	
Proceeds from sale of loans held for sale		6,535
Origination of loans held for sale		(2,869)
Restricted stock amortization	2,199	952
Tax effect included in stockholders' equity of restricted stock vesting	174	(5)
Decrease in accrued and deferred income taxes, net	814	810
Decrease in other assets	7,066	1,249
Partial settlement with FDIC on SPB deposit acquisition	(15,520)	
(Decrease) increase in accrued interest payable and other liabilities	(5,068)	32
Dividends on FHLB stock		(253)
Net cash provided by operating activities	9,281	38,100
Cash flows from investing activities:		
Net (increase) decrease in net loans outstanding	44,326	(1,385)
Proceeds from sale of loans		22,110
Net decrease (increase) in deposits in financial institutions	(36,978)	134
Securities available-for-sale:		
Maturities	15,323	12,623
Purchases	(33,786)	(22,362)
Purchases of FHLB stock		(5,866)
Proceeds from sale of other real estate owned	5,060	966
Purchases of premises and equipment, net	(1,001)	(803)
Proceeds from sale of premises and equipment	79	54
Net cash (used in) provided by investing activities	(6,977)	5,471
Cash flows from financing activities:		
Net increase (decrease) in deposits:		
Noninterest-bearing	58,399	65,356
Interest-bearing	(132,798)	8,642
Redemptions of subordinated debentures		(8,248)
Net proceeds from issuance of common stock	100,000	
Net surrenders from exercise and vesting of stock awards	(646)	(6)
Tax effect included in stockholders' equity of restricted stock vesting	(174)	5
Net decrease in borrowings		(72,200)
Cash dividends paid	(10,166)	(8,830)
Net cash provided by (used in) financing activities	14,615	(15,281)

Net increase in cash and cash equivalents	16,919	28,290
Cash and cash equivalents at beginning of period	101,090	101,363
Cash and cash equivalents at end of period	$ 118,009	$ 129,653
Supplemental disclosure of cash flow information:		
Cash paid during period for interest	$ 15,441	$ 20,006
Cash received during period for income taxes	(393)	
Transfer of loans to other real estate owned	11,700	4,187
Transfer from loans held-for-sale to loans		2,834
Transfer from loans to loans held-for-sale		22,085

See "Notes to Unaudited Condensed Consolidated Financial Statements."

Table of Contents

NOTE 1 BASIS OF PRESENTATION

PacWest Bancorp is a bank holding company registered under the Bank Holding Company Act of 1956, as amended. Our principal business is to serve as a holding company for our banking subsidiary, Pacific Western Bank, which we refer to as Pacific Western or the Bank. When we say "we", "our" or the "Company", we mean the Company on a consolidated basis with the Bank. When we refer to "PacWest" or to the holding company, we are referring to the parent company on a stand-alone basis.

We have completed 20 acquisitions since May 2000 including the merger whereby the former Rancho Santa Fe National Bank and First Community Bank of the Desert became wholly-owned subsidiaries of the Company in a pooling-of-interests transaction. All other acquisitions have been accounted for using the purchase method of accounting and, accordingly, their operating results have been included in the consolidated financial statements from their respective dates of acquisition. Please see Notes 2 and 3 for more information about our acquisitions.

(a) Basis of Presentation

The accounting and reporting policies of the Company are in accordance with U.S. generally accepted accounting principles, which we refer to as GAAP. All significant intercompany balances and transactions have been eliminated.

Our financial statements reflect all adjustments that are, in the opinion of management, necessary to present a fair statement of the results for the interim periods presented. Certain information and note disclosures normally included in consolidated financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The interim operating results are not necessarily indicative of operating results for the full year.

(b) Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period to prepare these consolidated financial statements in conformity with GAAP. Actual results could differ from those estimates. Material estimates subject to change in the near term include, among other items, the allowance for credit losses, the carrying values of intangible assets and the realization of deferred tax assets.

NOTE 2 ACQUISITIONS

All of the acquisitions consummated after December 31, 2000 were completed using the purchase method of accounting. Accordingly, we recorded the estimated merger-related charges associated with each acquisition as a liability at closing when the related purchase price was allocated. For each acquisition, we developed an integration plan for the Company that addressed, among other things, requirements for staffing, systems platforms, branch locations and other facilities. The established plans were evaluated regularly during the integration process and have been modified as required. The majority of the remaining merger-related liability represents the estimated lease payments, net of estimated sublease income, for the remaining life of leases for abandoned space. The following table presents the activity in the merger-related liability account summarized in the following primary categories: (i) severance and employee-related charges; (ii) asset write-downs, lease termination costs for abandoned space and other facility-related costs; and (iii) other charges for the three months ended March 31, 2009:

Table of Contents

NOTE 2 ACQUISITIONS (Continued)

	Severance and Employee-related	Asset Write-downs, Lease Terminations and Other Facilities-related	Other	Total
	(Dollars in thousands)			
Balance at December 31, 2008	$ 12	$ 730	$ 237	$ 979
Adjustments related to prior acquisitions		560		560
Non-cash write-downs and other		234	(234)	
Cash outlays	(3)	(131)	(3)	(137)
Balance at March 31, 2009	$ 9	$ 1,393	$	$ 1,402

NOTE 3 GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and intangible assets arise from purchase business combinations. The goodwill previously recorded had been assigned to our one reporting unit banking operations. Goodwill and other intangible assets deemed to have indefinite lives generated from purchase business combinations are not subject to amortization and are instead tested for impairment no less than annually. We wrote-off $275.0 million of goodwill in the first quarter of 2008 and the remaining $486.7 million of our goodwill in the second quarter of 2008. Such charges had no effect on the Company's or the Bank's cash balances or liquidity. In addition, because goodwill and other intangible assets are not included in the calculation of regulatory capital, the Company's and the Bank's well-capitalized regulatory ratios have not been affected by this non-cash expense.

Our intangible assets with definite lives are core deposit intangibles, or CDI, and customer relationship intangibles, or CRI. These intangible assets are amortized over their useful lives to their estimated residual values and reviewed for impairment at least quarterly. If the recoverable amount of the intangible asset is determined to be less than its carrying value, we would then measure the amount of impairment based on an estimate of the intangible asset's fair value at that time. If the fair value is below the carrying value, the intangible asset is reduced to such fair value and impairment is recognized as noninterest expense in the financial statements.

The following table presents the changes in the gross amounts of CDI and CRI and the related accumulated amortization for the quarters ended March 31, 2009 and 2008 and December 31, 2008:

	Quarters Ended		
	March 31, 2009	December 31, 2008	March 31, 2008
	(Dollars in thousands)		
Gross amount:			
Balance at the beginning of the period	$ 72,990	$ 70,805	$ 70,805
Additions		5,757	
Balance at the end of the period	72,990	76,562	70,805
Accumulated amortization:			
Balance at the beginning of the period	(33,068)	(34,308)	(27,020)
Amortization	(2,247)	(2,332)	(2,530)
Balance at the end of the period	(35,315)	(36,640)	(29,550)
Net balance at the end of the period	$ 37,675	$ 39,922	$ 41,255

Table of Contents

NOTE 3 GOODWILL AND OTHER INTANGIBLE ASSETS (Continued)

The decline in the gross amount of the intangible assets for the first quarter of 2009 was due to fully amortized CDI and CRI totaling $3.6 million. The estimated aggregate amortization expense related to the intangible assets is expected to be $9.2 million for 2009. The estimated aggregate amortization expense related to these intangible assets for each of the subsequent four years is $8.5 million, $7.0 million, $4.6 million, and $3.3 million.

NOTE 4 INVESTMENT SECURITIES AND FHLB STOCK

The amortized cost, gross unrealized gains and losses and fair value of securities available-for-sale as of March 31, 2009 are as follows:

	March 31, 2009			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(Dollars in thousands)			
Government and government-sponsored entity mortgage-backed securities	$ 102,418	$ 3,361	$ 12	$ 105,767
Government-sponsored entity debt securities	25,999	130	51	26,078
Municipal securities	7,340	207	60	7,487
Other securities	1,774			1,774
Total	$ 137,531	$ 3,698	$ 123	$ 141,106

The contractual maturity distribution of our securities portfolio based on amortized cost and fair value as of March 31, 2009, is shown below. Mortgage-backed securities have contractual terms to maturity, but require periodic payments to reduce principal. In addition, expected maturities may differ from contractual maturities because obligors and/or issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Maturity distribution as of March 31, 2009	
	Amortized cost	Fair value
	(Dollars in thousands)	
Due in one year or less	$ 6,924	$ 6,952
Due after one year through five years	17,485	17,838
Due after five years through ten years	17,635	17,814
Due after ten years	95,487	98,502
Total	$ 137,531	$ 141,106

At March 31, 2009, the fair value of debt securities and mortgage-backed debt securities issued by the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) was approximately $79.8 million. We do not own any non-agency mortgage-backed securities or any equity securities issued by Fannie Mae or Freddie Mac. See Note 7 for a discussion of fair value measurements and methodology.

As of March 31, 2009 securities available-for-sale with a fair value of $139.3 million were pledged as security for borrowings, public deposits and other purposes as required by various statutes and agreements.

Table of Contents

NOTE 4 INVESTMENT SECURITIES AND FHLB STOCK (Continued)

The following table presents the fair value and unrealized losses on securities that were temporarily impaired as of March 31, 2009. At March 31, 2009 none of the securities in our investment portfolio had been in a continuous unrealized loss position for 12 months or longer.

	Impairment Period					
	Less than 12 months		12 months or longer		Total	
Descriptions of securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
Government and government-sponsored entity mortgage-backed securities	$ 2,941	$ 12	$	$	$ 2,941	$ 12
Government-sponsored entity debt securities	8,949	51			8,949	51
Municipal securities	2,280	60			2,280	60
Total temporarily impaired securities	$ 14,170	$ 123	$	$	$ 14,170	