PACWEST BANCORP
Form 10-Q
August 10, 2009

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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 June 30, 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	**33-0885320**
(State or other jurisdiction of incorporation or organization)	(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 August 5, 2009 there were 31,094,157 shares of the registrant's common stock outstanding, excluding 1,205,792 shares of unvested restricted stock.

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PART I FINANCIAL INFORMATION

ITEM 1. Unaudited Condensed Consolidated Financial Statements

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2009	December 31, 2008
	(Dollars in thousands, except share data)	
Assets:		
Cash and due from banks	$ 102,351	$ 100,925
Federal funds sold		165
Total cash and cash equivalents	102,351	101,090
Interest-bearing deposits in financial institutions	79,314	58,780
Investments:		
Federal Home Loan Bank stock, at cost	33,782	33,782
Securities available-for-sale (amortized cost of $162,346 at June 30, 2009 and $119,074 at December 31, 2008)	165,286	121,577
Total investments	199,068	155,359
Loans, net of unearned income	3,904,366	3,987,891
Less allowance for loan losses	(72,122)	(63,519)
Net loans	3,832,244	3,924,372
Premises and equipment, net	23,611	24,675
Other real estate owned, net	46,583	41,310
Accrued interest receivable	15,269	15,976
Core deposit and customer relationship intangibles	35,417	39,922
Cash surrender value of life insurance	66,593	70,588
Other assets	75,786	63,430
Total assets	$4,476,236	$ 4,495,502
Liabilities and Stockholders' Equity:		
Deposits:		
Noninterest-bearing	$1,227,891	$ 1,165,485
Interest-bearing	2,025,420	2,309,730
Total deposits	3,253,311	3,475,215
Accrued interest payable and other liabilities	43,931	64,567
Borrowings	585,000	450,000
Subordinated debentures	129,897	129,994
Total liabilities	4,012,139	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; 32,357,965 shares issued at June 30, 2009 and 28,528,466 shares issued at December 31, 2008 (includes 1,237,423 and 1,309,586 shares of unvested restricted stock, respectively)	323	285
Capital surplus	1,003,026	909,922
Accumulated deficit	(539,971)	(535,676)

Less common stock repurchased: 47,657 shares at June 30, 2009 and 12,360 shares at December 31, 2008	(986)	(257)
Accumulated other comprehensive income unrealized gain on securities available-for-sale, net	1,705	1,452
Total stockholders' equity	464,097	375,726
Total liabilities and stockholders' equity	$4,476,236	$ 4,495,502

See "Notes to Unaudited Condensed Consolidated Financial Statements."

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

	Quarter Ended			Six Months Ended June 30,	
	06/30/09	03/31/09	06/30/08	2009	2008
	(In thousands, except per share data)				
Interest income:					
Interest and fees on loans	$61,663	$61,847	$ 69,536	$123,510	$ 145,189
Interest on federal funds sold			23		63
Interest on deposits in financial institutions	37	61	2	98	5
Interest on investment securities	1,641	1,546	1,861	3,187	3,562
Total interest income	63,341	63,454	71,422	126,795	148,819
Interest expense:					
Deposits	7,367	9,320	8,919	16,687	20,740
Borrowings	3,626	3,582	4,680	7,208	9,987
Subordinated debentures	1,639	1,779	2,051	3,418	4,460
Total interest expense	12,632	14,681	15,650	27,313	35,187
Net interest income before provision for credit losses	50,709	48,773	55,772	99,482	113,632
Provision for credit losses	18,000	14,000	3,500	32,000	29,500
Net interest income after provision for credit losses	32,709	34,773	52,272	67,482	84,132
Noninterest income:					
Service charges on deposit accounts	3,009	3,149	3,205	6,158	6,429
Other commissions and fees	1,746	1,685	1,812	3,431	3,331
Loss on sale of loans, net			(572)		(303)
Increase in cash surrender value of life insurance	394	439	617	833	1,204
Other income	224	808	302	1,032	1,172
Total noninterest income	5,373	6,081	5,364	11,454	11,833
Noninterest expense:					
Compensation	18,394	19,331	18,919	37,725	37,765
Occupancy	6,462	6,386	5,930	12,848	11,800
Data processing	1,677	1,628	1,604	3,305	3,147
Other professional services	1,486	1,524	1,669	3,010	3,084
Business development	625	725	849	1,350	1,605
Communications	688	693	816	1,381	1,640
Insurance and assessments	3,871	1,598	810	5,469	1,350
Other real estate owned, net	9,231	997	127	10,228	101
Intangible asset amortization	2,367	2,247	2,484	4,614	5,014
Reorganization and lease charges		1,215	258	1,215	258
Legal settlement			780		780
Goodwill write-off			486,701		761,701
Other	3,130	2,625	3,100	5,755	6,014
Total noninterest expense	47,931	38,969	524,047	86,900	834,259
Earnings (loss) before income taxes	(9,849)	1,885	(466,411)	(7,964)	(738,294)

Income taxes	(4,109)	440	8,103	(3,669)	8,943
Net earnings (loss)	$ (5,740)	$ 1,445	$ (474,514)	$ (4,295)	$ (747,237)
Earnings (loss) per share:					
Basic	$ (0.18)	$ 0.04	$ (17.47)	$ (0.15)	$ (27.53)
Diluted	$ (0.18)	$ 0.04	$ (17.47)	$ (0.15)	$ (27.53)
Dividends declared per share	$ 0.01	$ 0.32	$ 0.32	$ 0.33	$ 0.64

See "Notes to Unaudited Condensed Consolidated Financial Statements."

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Quarter Ended			Six Months Ended June 30,	
	06/30/09	03/31/09	06/30/08	2009	2008
	(Dollars in thousands)				
Net earnings (loss)	$ (5,740)	$ 1,445	$ (474,514)	$ (4,295)	$ (747,237)
Other comprehensive income (loss), net of related income taxes:					
Unrealized holding (losses) gains on securities available-for-sale arising during the period	(369)	622	(1,193)	253	(630)
Comprehensive income (loss)	$ (6,109)	$ 2,067	$ (475,707)	$ (4,042)	$ (747,867)

See "Notes to Unaudited Condensed Consolidated Financial Statements."

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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 loss				(4,295)			(4,295)
Issuance of common stock	3,846,153	38	99,962				100,000
Tax effect from vesting of restricted stock			(467)				(467)
Restricted stock awarded and earned stock compensation, net of shares forfeited	(16,654)		4,092				4,092
Restricted stock surrendered	(35,297)				(729)		(729)
Cash dividends paid ($0.33 per share)			(10,483)				(10,483)
Other comprehensive income increase in net unrealized gain on securities available-for-sale, net of tax effect of $184 thousand						253	253
Balance at June 30, 2009	32,310,308	$ 323	$ 1,003,026	$ (539,971)	$ (986)	$ 1,705	$ 464,097

See "Notes to Unaudited Condensed Consolidated Financial Statements."

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
	2009	2008
	(Dollars in thousands)	
Cash flows from operating activities:		
Net loss	$ (4,295)	$ (747,237)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Goodwill write-off		761,701
Depreciation and amortization	7,338	7,453
Provision for credit losses	32,000	29,500
Loss on sale of other real estate owned	1,505	
Write-downs of other real estate owned	7,532	
Loss on sale of loans		303
(Gain) loss on sale of premises and equipment	(11)	12
Proceeds from sale of loans held for sale		7,868
Origination of loans held for sale		(1,665)
Restricted stock amortization	4,092	2,432
Tax effect included in stockholders' equity of stock option exercises and restricted stock vesting	467	252
Decrease in accrued and deferred income taxes, net	(15,319)	(7,665)
Decrease in other assets	8,913	3,664
(Decrease) increase in accrued interest payable and other liabilities	(18,731)	1,065
Dividends on FHLB stock		(695)
Net cash provided by operating activities	23,491	56,988
Cash flows from investing activities:		
Cash paid to FDIC in settlement of SPB deposit acquisition	(109)	
Net decrease in net loans outstanding	25,948	47,676
Proceeds from sale of loans		22,110
Net (increase) decrease in deposits in financial institutions	(20,534)	167
Securities available-for-sale:		
Maturities	34,620	25,813
Purchases	(77,945)	(29,316)
Net purchases of FHLB stock		(6,600)
Proceeds from sale of other real estate owned	16,359	846
Capitalized costs to complete other real estate owned	(293)	
Purchases of premises and equipment, net	(1,774)	(2,185)
Proceeds from sale of premises and equipment	81	54
Net cash (used in) provided by investing activities	(23,647)	58,565
Cash flows from financing activities:		
Net increase (decrease) in deposits:		
Noninterest-bearing	62,406	27,152
Interest-bearing	(284,310)	(80,085)
Redemptions of subordinated debentures		(8,248)
Net proceeds from issuance of common stock	100,000	
Net surrenders from exercise and vesting of stock awards	(729)	(258)
Tax effect included in stockholders' equity of stock option exercises and restricted stock vesting	(467)	(252)
Net increase (decrease) in borrowings	135,000	(10,700)
Cash dividends paid	(10,483)	(17,663)

Net cash provided by (used in) financing activities	1,417	(90,054)
Net increase in cash and cash equivalents	1,261	25,499
Cash and cash equivalents at beginning of period	101,090	101,363
Cash and cash equivalents at end of period	$ 102,351	$ 126,862
Supplemental disclosure of cash flow information:		
Cash paid during period for interest	$ 28,621	$ 35,516
Cash paid during period for income taxes	11,625	16,556
Transfer of loans to other real estate owned	30,343	8,355
Transfer from loans held-for-sale to loans		57,034
Transfer from loans to loans held-for-sale		22,085

See "Notes to Unaudited Condensed Consolidated Financial Statements."

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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. 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 remaining merger-related liability totals $1.3 million at June 30, 2009 and represents the estimated lease payments, net of estimated sublease income, for the remaining life of leases for abandoned space.

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

NOTE 3 GOODWILL AND OTHER INTANGIBLE ASSETS (Continued)

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 periods indicated:

	Six Months Ended	
	6/30/09	6/30/08
	(Dollars in thousands)	
Gross amount:		
Balance at the beginning of the period	$ 72,990	$ 70,805
Adjustment to SPB CDI	109	
Balance at the end of the period	73,099	70,805
Accumulated amortization:		
Balance at the beginning of the period	(33,068)	(27,020)
Amortization	(4,614)	(5,014)
Balance at the end of the period	(37,682)	(32,034)
Net balance at the end of the period	$ 35,417	$ 38,771

The 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 June 30, 2009 are in the table below. Other securities includes an investment in overnight money

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NOTE 4 INVESTMENT SECURITIES AND FHLB STOCK (Continued)

market funds at a financial institution. See Note 7 for information on fair value measurements and methodology.

	June 30, 2009			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(Dollars in thousands)			
Government and government-sponsored entity mortgage-backed securities	$133,029	$ 2,967	$ 211	$135,785
Government-sponsored entity debt securities	14,999	20	44	14,975
Municipal securities	8,294	235	27	8,502
Other securities	6,024			6,024
Total	$162,346	$ 3,222	$ 282	$165,286

The contractual maturity distribution of our securities portfolio based on amortized cost and fair value as of June 30, 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 June 30, 2009	
	Amortized cost	Fair value
	(Dollars in thousands)	
Due in one year or less	$ 8,024	$ 8,024
Due after one year through five years	9,473	9,873
Due after five years through ten years	21,244	21,368
Due after ten years	123,605	126,021
Total	$ 162,346	$165,286

At June 30, 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 $101.6 million. We do not own any non-agency mortgage-backed securities or any equity securities issued by Fannie Mae or Freddie Mac.

As of June 30, 2009 securities available-for-sale with a fair value of $155.2 million were pledged as collateral for borrowings, public deposits and other purposes as required by various statutes and agreements.

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NOTE 4 INVESTMENT SECURITIES AND FHLB STOCK (Continued)

At June 30, 2009 none of the securities in our investment portfolio had been in a continuous unrealized loss position for 12 months or longer. The following table presents the fair value and unrealized losses on securities that were temporarily impaired as of June 30, 2009.

	Impairment Period			
	Less than 12 months		12 months or longer	
Descriptions of securities	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
	(Dollars in thousands)			
Government and government-sponsored entity mortgage-backed securities	$17,329	$ 211	$	$
Government-sponsored entity debt securities	8,956	44		
Municipal securities	813	27		
Total temporarily impaired securities	$27,098	$ 282	$	$

FHLB Stock. The Company has a $33.8 million investment in Federal Home Loan Bank of San Francisco (FHLB) stock which is carried at cost at June 30, 2009. In January 2009, the FHLB announced it suspended excess FHLB stock redemptions and dividend payments. We evaluated the carrying value of our FHLB stock investment at June 30, 2009 and determined it was not impaired. Our evaluation considered the long-term nature of the investment, the liquidity position of the FHLB, the actions being taken by the FHLB to address its regulatory situation, and our intent and ability to hold this investment for a period of time sufficient to recover our recorded investment.

NOTE 5 BORROWINGS, SUBORDINATED DEBENTURES AND BROKERED DEPOSITS

Borrowings

The following table summarizes our FHLB advances by their maturity dates outstanding at June 30, 2009:

Year of Maturity	**Amount**	**Rate**	**Next Date Callable by FHLB**
	(Dollars in thousands)		
Overnight	$135,000	0.11%	N/A
2009	100,000	3.63%	N/A
2010	75,000	3.04%	N/A
2013	50,000	2.71%	10/11/2009(a)
2017	200,000	3.16%	9/11/2009(a)
2018	25,000	2.61%	10/11/2009(a)
Total	$585,000	2.46%	

(a) Quarterly thereafter.

With the exception of overnight borrowings the FHLB advances outstanding at June 30, 2009, are term advances scheduled to mature in December 2009 and January 2010 and callable advances with longer maturity dates. The callable advances have all passed their initial call dates and are currently callable on a quarterly basis by the FHLB. While the FHLB may call the advances to be repaid for any reason, they are likely to be called if market interest rates are higher than the advances' stated rates on the call dates. We may repay the advances at any time with a prepayment penalty. Our aggregate

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NOTE 5 BORROWINGS, SUBORDINATED DEBENTURES AND BROKERED DEPOSITS (Continued)

remaining borrowing capacity under the FHLB secured lines of credit was $479.2 million at June 30, 2009. Additionally, the Bank had secured borrowing capacity from the Federal Reserve discount window of $485.9 million at June 30, 2009. The Bank also maintains unsecured lines of credit of $155.0 million with correspondent banks for the purchase of overnight funds; these lines are subject to availability of funds.

The Company cancelled its $35.0 million revolving credit line with U.S. Bank, N.A. effective May 8, 2009, due to the lack of use and to avoid line availability fees.

Subordinated Debentures

The Company had an aggregate of $129.9 million subordinated debentures outstanding at June 30, 2009. These subordinated debentures were issued in seven separate series. Each issuance has a maturity of thirty years from its date of issue. The subordinated debentures were issued to trusts established by us or entities we have acquired, which in turn issued trust preferred securities, which total $123.0 million at June 30, 2009. With the exception of Trust I and Trust CI, the subordinated debentures are callable at par, only by the issuer, five years from the date of issuance, subject to certain exceptions. We were permitted to call the debentures in the first five years if the prepayment election relates to one of the following three events: (i) a change in the tax treatment of the debentures stemming from a change in the IRS laws; (ii) a change in the regulatory treatment of the underlying trust preferred securities as Tier 1 capital; and (iii) a requirement to register the underlying trust as a registered investment company. However, redemption in the first five years is subject to a prepayment penalty. Trust I and Trust CI may not be called for 10 years from the date of issuance unless one of the three events described above has occurred and then a prepayment penalty applies. In addition, there is a prepayment penalty if either of these debentures is called 10 to 20 years from the date of their issuance and they may be called at par after 20 years. The proceeds of the subordinated debentures we originated were used primarily to fund several of our acquisitions and to augment regulatory capital.

The following table summarizes the terms of each issuance of the subordinated debentures outstanding at June 30, 2009:

Series	Date issued	Amount	Maturity	Earliest Call Date by Company without Penalty(1)	Fixed or Variable Rate	Rate Index	Current Rate(2)	Next Reset Date
				(Dollars in thousands)				
Trust CI(3)	3/23/2000	$ 10,310	3/8/2030	3/8/2020	Fixed	N/A	11.00%	N/A
Trust I	9/7/2000	8,248	9/7/2030	9/7/2020	Fixed	N/A	10.60%	N/A
Trust V	8/15/2003	10,310	9/17/2033	N/A	Variable	3 month LIBOR + 3.10	3.71%	9/15/2009
Trust VI	9/3/2003	10,310	9/15/2033	N/A	Variable	3 month LIBOR + 3.05	3.68%	9/11/2009
Trust CII(3)	9/17/2003	5,155	9/17/2033	N/A	Variable	3 month LIBOR + 2.95	3.56%	9/15/2009
Trust VII	2/5/2004	61,856	4/23/2034	N/A	Variable	3 month LIBOR + 2.75	3.24%	10/28/2009
Trust CIII(3)	8/15/2005	20,619	9/15/2035	9/15/2010	Fixed(4)	N/A	5.85%	9/15/2010
Unamortized premium(5)		3,089						
Total		$ 129,897						

(1) As described above, certain issuances may be called earlier without penalty upon the occurrence of certain events.

(2) As of July 28, 2009; excludes debt issuance costs.

(3) Acquired in the Community Bancorp acquisition.

(4)

Interest rate is fixed until 9/15/2010 and then is variable at a rate of 3-month LIBOR + 1.69%.

(5)

This amount represents the fair value adjustment on acquired trusts.

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As previously mentioned, the subordinated debentures were issued to trusts established by us, or entities we acquired, which in turn issued $123.0 million of trust preferred securities. These securities are currently included in our Tier I capital for purposes of determining the Company's Tier I and total risk-based capital ratios. The Board of Governors of the Federal Reserve System, which is the holding company's banking regulator, has promulgated a modification of the capital regulations affecting trust preferred securities. Although this modification was scheduled to be effective on March 31, 2009, the Federal Reserve postponed the effective date to March 31, 2011. At that time, the Company will be allowed to include in Tier I capital an amount of trust preferred securities equal to no more than 25% of the sum of all core capital elements, which is generally defined as shareholders' equity less certain intangibles, including goodwill, core deposit intangibles and customer relationship intangibles, net of any related deferred income tax liability. The regulations currently in effect through December 31, 2010, limit the amount of trust preferred securities that can be included in Tier I capital to 25% of the sum of core capital elements without a deduction for permitted intangibles. We have determined that our Tier I capital ratios would remain above the well-capitalized level had the modification of the capital regulations been in effect at June 30, 2009. We expect that our Tier I capital ratios will be at or above the existing well-capitalized levels on March 31, 2011, the first date on which the modified capital regulations must be applied.

Brokered Deposits

Brokered deposits totaled $119.0 million at June 30, 2009 and are included in the interest-bearing deposits balance on the accompanying consolidated balance sheet. Such amount includes (a) $96.7 million of customer deposits that were subsequently participated with other FDIC insured financial institutions through the CDARS program as a means to provide FDIC deposit insurance coverage for the full amount of our customers' deposits, (b) $11.1 million of Pacific Western Bank wholesale CDs which mature in 2009, and (c) $11.2 million of brokered deposits acquired in the Security Pacific Bank (SPB) deposit acquisition. Such amounts exclude $9.5 million of money desk CDs also acquired in SPB deposit acquisition.

NOTE 6 COMMITMENTS AND CONTINGENCES

Lending Commitments

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments to extend credit amounting to $837.2 million and $995.7 million were outstanding at June 30, 2009 and December 31, 2008.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. Most guarantees expire within one year from the date of issuance. The Company generally requires collateral or other security to support financial instruments with credit risk. Standby letters of credit amounting to $38.6 million and $67.3 million were outstanding at June 30, 2009 and December 31, 2008.

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NOTE 6 COMMITMENTS AND CONTINGENCES (Continued)

The Company has investments in low income housing project partnerships which provide the Company income tax credits and in several small business investment companies. As of June 30, 2009 the Company had commitments to contribute capital to these entities totaling $306,000.

Legal Matters

In the ordinary course of our business, we are party to various legal actions, which we believe are incidental to the operation of our business. The ultimate outcome and amount of liability, if any, with respect to these legal actions to which we are currently a party cannot presently be ascertained with certainty. In the opinion of management, based upon information currently available to us, any resulting liability is not likely to have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

NOTE 7 FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date reflecting assumptions that a market participant would use when pricing an asset or liability. The fair value hierarchy is as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3: Inputs to the valuation methodology that are unobservable and significant to the fair value measurement.

Certain assets and liabilities are measured at the lower of cost or fair value in accordance with GAAP. Accordingly, an asset or a liability may, or may not, meet the criteria for fair value measurement during a reporting period; the fair value measurements of these assets and liabilities are considered "nonrecurring". For assets measured at fair value on a nonrecurring basis, the following tables present the level of valuation assumptions used to determine each adjustment, the carrying value of the related assets, and the total gains and losses recognized in the quarter and six months ended June 30, 2009. The tables are followed by a description of the valuation methodologies used to measure such assets at fair value. We have no liabilities that are measured at fair value.

For the quarter ended June 30, 2009:

		Fair Value Measurement Using		
Recurring	**Total Fair Value**	**Quoted Market Price Level 1**	**Observable Inputs Level 2**	**Significant Unobservable Inputs Level 3**
		(Dollars in thousands)		
Securities available-for-sale	$ 165,286		$ 165,286	

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NOTE 7 FAIR VALUE MEASUREMENTS (Continued)

Nonrecurring	Total Fair Value	Level 1	Level 2	Level 3	Total Gains (Losses)
		(Dollars in thousands)			
Impaired loans	$ 103,084	$	$ 29,210	$ 73,874	$ (3,077)
Other real estate owned	27,464		18,298	9,166	(7,803)
Servicing asset	2,075			2,075	72
					$ (10,808)

For the six months ended June 30, 2009:

Description	Total Fair Value	Level 1	Level 2	Level 3	Total Gains (Losses)
		(Dollars in thousands)			
Impaired loans	$ 103,084	$	$ 29,210	$ 73,874	$ (15,344)
Other real estate owned	27,464		18,298	9,166	(8,218)
Servicing asset	2,075			2,075	152
					$ (23,410)

Securities available-for-sale. Securities available-for-sale are measured and carried at fair value on a recurring basis. We obtain one report from a nationally recognized broker-dealer detailing the fair value of each investment security we hold as of each reporting date. This broker-dealer uses observable market information to value our fixed income securities, with the primary source being a nationally recognized pricing service. The fair value of the municipal securities is based on a proprietary model maintained by the independent third party. Such model also incorporates several observable market inputs, including the use of the Thompson Municipal Market Data for general municipals. We review all of the broker-dealer supplied quotes on the securities we own as of the reporting date for reasonableness based on our understanding of the marketplace and we consider any credit issues related to the bonds. We have not made any adjustments to the market quotes provided to us and as they are based on observable market data, and they have been categorized as Level 2 within the fair value hierarchy. See Note 4 for further information on unrealized gains and losses on securities available-for-sale.

Impaired loans. All of our nonaccrual and restructured loans are considered impaired and are reviewed individually for the amount of impairment, if any. Most of our loans are collateral dependent and, accordingly, we measure impaired loans based on the fair value of such collateral. The fair value of each loan's collateral is generally based on estimated market prices from an independently prepared current appraisal, which is then adjusted for the cost related to liquidating such collateral; such valuation inputs result in a fair value measurement that is categorized as a Level 2 measurement. In light of the decline in real estate values over the past several quarters, current appraisals are generally considered to be less than eight months old. When adjustments are made to an appraised value to reflect various factors such as the age of the appraisal or known changes in the market or the collateral, such valuation inputs are considered unobservable and the fair value measurement is categorized as a Level 3 measurement. The fair values of unsecured impaired loans are based generally on unobservable inputs, such as the strength of a guarantor, including an SBA government or insurance company guarantee, cash flows discounted at the effective loan rate, whether a borrower has filed for bankruptcy, and management's judgment; the fair value measurement of these loans is also categorized as a Level 3 measurement. The loan balances shown in the above table represent those nonaccrual and restructured loans for which impairment was recognized during the periods presented. The amount

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NOTE 7 FAIR VALUE MEASUREMENTS (Continued)

shown as losses represents, for the loan balances shown, the impairment recognized during the periods. Of the $156.9 million in loans on nonaccrual status at June 30, 2009, loans totaling $8.7 million were written down to their fair values through a charge to the allowance for loan losses during the second quarter of 2009.

Other real estate owned. The fair value of foreclosed real estate is generally based on estimated market prices from independently prepared current appraisals or negotiated sales prices with buyers; such valuation inputs result in a fair value measurement that is categorized as a Level 2 measurement. An appraisal less than eight months old is considered current. When a current appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value as a result of known changes in the market or the collateral and there is no observable market price, such valuation inputs result in a fair value measurement that is categorized as a Level 3 measurement. To the extent a negotiated sales price represents a significant discount to an observable market price, such valuation input would result in a fair value measurement that is also considered a Level 3 measurement.

Servicing asset. The SBA servicing asset, which is included in other assets in the balance sheet, was written up through earnings to its implied fair value of $2.1 million by $72,000 in the second quarter of 2009 and by $152,000 for the six months ended June 30, 2009. The fair value of the servicing asset is estimated by discounting future cash flows using market-based discount rates and prepayment speeds. The discount rate is based on the current US Treasury yield curve, as published by the Department of the Treasury, plus a spread for the marketplace risk associated with these assets. We utilize estimated prepayment vectors using SBA prepayment information provided by Bloomberg for pools of similar assets to determine the timing of the cash flows. These valuation inputs are considered to be a Level 3 measurement.

The carrying amount and estimated fair values of the Company's financial instruments are as follows:

	June 30, 2009	
	Carrying or Contract Amount	Fair Value Estimates
	(Dollars in thousands)	
Financial Assets:		
Cash and due from banks	$ 102,351	$ 102,351
Interest-bearing deposits in financial institutions	79,314	79,314
Investment in Federal Home Loan Bank Stock	33,782	33,782
Securities available-for-sale	165,286	165,286
Loans, net	3,832,244	3,829,206
Financial Liabilities:		
Deposits	3,253,311	3,256,277
Borrowings	585,000	604,820
Subordinated debentures	129,897	134,897

Discussion regarding the methods and significant assumptions used to compute the fair values of financial instruments can be found in note 12 to the consolidated financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2008.

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NOTE 8 NET EARNINGS (LOSS) PER SHARE

The following is a summary of the calculation of basic and diluted net earnings (loss) per share for the periods indicated:

	Quarter Ended			Six Months Ended June 30,	
	June 30, 2009	March 31, 2009	June 30, 2008	2009	2008
	(In thousands except per share data)				
Basic earnings (loss) per share:					
Net earnings (loss)	$ (5,740)	$ 1,445	$ (474,514)	$ (4,295)	$ (747,237)
Less: earnings allocated to unvested restricted stock (a)	(7)	(227)	(136)	(233)	(280)
Net earnings (loss) allocated to common shares	$ (5,747)	$ 1,218	$ (474,650)	$ (4,528)	$ (747,517)
Total weighted-average basic shares and unvested restricted stock outstanding	32,313.3	31,782.4	28,163.2	32,049.4	28,127.6
Less: weighted-average unvested restricted stock outstanding	(1,245.7)	(1,287.2)	(996.4)	(1,266.4)	(971.6)
Total weighted-average basic shares outstanding	31,067.6	30,495.2	27,166.8	30,783.0	27,156.0
Basic earnings (loss) per share	$ (0.18)	$ 0.04	$ (17.47)	$ (0.15)	$ (27.53)
Diluted earnings (loss) per share:					
Net earnings (loss) allocated to common shares	$ (5,747)	$ 1,218	$ (474,650)	$ (4,528)	$ (747,517)
Total weighted-average basic shares and unvested restricted stock outstanding	32,313.3	31,782.4	28,163.2	32,049.4	28,127.6
Add: stock options outstanding		0.5			
Less: weighted-average unvested restricted stock outstanding	(1,245.7)	(1,287.2)	(996.4)	(1,266.4)	(971.6)
Total weighted-average diluted shares outstanding	31,067.6	30,495.7	27,166.8	30,783.0	27,156.0
Diluted earnings (loss) per share	$ (0.18)	$ 0.04	$ (17.47)	$ (0.15)	$ (27.53)

(a) Represents cash dividends paid to holders of unvested restricted stock, net of estimated forfeitures, plus undistributed earnings amounts available to holders of unvested restricted stock, if any.

On January 1, 2009, FSP EITF 03-06-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities,* became effective for us. This pronouncement clarified that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities and are included in the two-class method of determining basic and diluted earnings per shares. All our unvested restricted stock participates with our common stockholders in dividends. Application of the new standard results in a reduction of net earnings available to common stockholders and lower earnings per share when compared to the previous requirements. Application of the new standard had no effect on the reported amounts of earnings per share for the second quarter of 2008. The new standard's effect on the net loss per share for the six months ended June 30, 2008 was an increase of $0.01 to $27.53 from $27.52.

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NOTE 9 STOCK COMPENSATION PLANS

Restricted Stock

At June 30, 2009, there were outstanding 717,423 shares of unvested time-based restricted common stock and 520,000 shares of unvested performance-based restricted common stock. The awarded shares of time-based restricted common stock vest over a service period of three to five years from date of the grant. The awarded shares of performance-based restricted common stock vest in full on the date the Compensation, Nominating and Governance, or CNG, Committee of the Board of Directors, as Administrator of the Company's 2003 Stock Incentive Plan, or the 2003 Plan, determines that the Company achieved certain financial goals established by the CNG Committee as set forth in the grant documents. Both time-based and performance-based restricted common stock vest immediately upon a change in control of the Company as defined in the 2003 Plan and upon death of the employee.

Compensation expense related to awards of restricted stock is based on the fair value of the underlying stock on the award date and is recognized over the vesting period using the straight-line method. The vesting of performance-based restricted stock awards and recognition of related compensation expense may occur over a shorter vesting period if financial performance targets are achieved earlier than anticipated. In the fourth quarter of 2007, the amortization of certain performance-based restricted stock awards was suspended. During the fourth quarter of 2008 we concluded it was improbable that the financial targets would be met for the performance-based stock awards and we reversed the accumulated amortization on those awards through a credit to compensation expense of $4.5 million. If and when the attainment of such performance targets is deemed probable in future periods, a catch-up adjustment will be recorded and amortization of such performance-based restricted stock will begin again. The unvested performance-based restricted stock awarded in 2006 expires in 2013. The unvested performance-based restricted stock awarded in 2007 and 2008 expires in 2017. Restricted stock amortization totaled $1.9 million, $2.2 million and $1.5 million for the quarters ended June 30, 2009, March 31, 2009 and June 30, 2008 and $4.1 million and $2.4 million for the six months ended June 30, 2009 and 2008. Such amounts are included in compensation expense in the accompanying consolidated statements of earnings.

The Company's 2003 Plan permits stock based compensation awards to officers, directors, key employees and consultants. The 2003 Plan authorizes grants of stock-based compensation instruments to purchase or issue up to 5,000,000 shares of authorized but unissued Company common stock, subject to adjustments provided by the 2003 Plan. As of August 5, 2009, there were 1,630,127 shares available for grant under the 2003 Plan.

NOTE 10 RECENT ACCOUNTING PRONOUNCEMENTS

On January 1, 2009 we adopted SFAS No. 141R, *Business Combinations* (SFAS 141R). SFAS 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. This statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statement to evaluate the nature and financial effects of the business combination. We expect SFAS 141R will have an impact on our consolidated financial statements, but the nature and magnitude of the specific effects will depend upon the nature, terms and size of any acquisitions we consummate going forward.

On January 1, 2009, we adopted FASB Staff Position (FSP) EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP EITF 03-6-1). FSP EITF 03-6-1 clarifies that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders. Awards of

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NOTE 10 RECENT ACCOUNTING PRONOUNCEMENTS (Continued)

this nature are considered participating securities and the two-class method of computing basic and diluted earnings per share must be applied. All of our unvested restricted stock participates with common shareholders in dividends declared and paid by the Company. See Note 8 for further information.

In April 2009 the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP FAS 157-4). FSP FAS 157-4 provides guidance on how to determine the fair value of assets and liabilities in an environment where the volume and level of activity for the asset or liability have significantly decreased and re-emphasizes that the objective of a fair value measurement remains an exit price. FSP FAS 157-4 is effective for periods ending after June 15, 2009. We adopted this FSP as of June 30, 2009 and such adoption had no impact on our consolidated financial statements.

In April 2009 the FASB issued FSP FAS 115-2 and 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP FAS 115-2 and 124-2). FSP FAS 115-2 and 124-2 modifies the requirements for recognizing other-than-temporary impairment on debt securities and significantly changes the impairment model for such securities. Under FSP FAS 115-2 and 124-2, a security is considered to be other-than-temporarily impaired if the present value of cash flows expected to be collected are less than the security's amortized cost basis (the difference being defined as the credit loss) or if the fair value of the security is less than the security's amortized cost basis and the investor intends, or more-likely-than-not will be required, to sell the security before recovery of the security's amortized cost basis. If an other-than-temporary impairment exists, the charge to earnings is limited to the amount of credit loss if the investor does not intend to sell the security, and it is more-likely-than-not that it will not be required to sell the security, before recovery of the security's amortized cost basis. Any remaining difference between fair value and amortized cost is recognized in other comprehensive income, net of applicable taxes. Otherwise, the entire difference between fair value and amortized cost is charged to earnings. Upon adoption of the FSP, an entity reclassifies from retained earnings to other comprehensive income the noncredit portion of an other-than-temporary impairment loss previously recognized on a security it holds if the entity does not intend to sell the security, and it is more-likely-than not that it will not be required to sell the security, before recovery of the security's amortized cost basis. The FSP also modifies the presentation of other-than-temporary impairment losses and increases related disclosure requirements. FSP FAS 115-2 and 124-2 is effective for periods ending after June 15, 2009. Our adoption of this FSP on June 30, 2009 had no impact on our consolidated financial statements.

In April 2009 the FASB issued FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Statements (*FSP FAS 107-1 and APB 28-1). FSP FAS 107-1 and APB 28-1 requires companies to disclose the fair value of financial instruments within interim financial statements, adding to the current requirement to provide those disclosures annually and is effective June 30, 2009. The disclosures under this FSP are shown in Note 7.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (SFAS 168 or The Codification). The Codification will become the single source of authoritative guidance for U.S. GAAP recognized by the FASB other than guidance issued by the SEC. The Codification establishes a hierarchy of accounting principles with only two levels of GAAP: authoritative and nonauthoritative. The Codification does not change U.S. GAAP. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. This statement will only affect textual disclosures as we will change the references made to U.S. GAAP.

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NOTE 11 CAPGEN FINANCIAL INVESTMENT

On September 2, 2008 we announced that the private equity firm CapGen Financial had agreed to acquire approximately $100 million of newly issued shares of PacWest Bancorp common stock at a price of $26.00 per share, which represented a 21% premium to the last five trading-day average closing price of PacWest common stock before the announcement. After receipt of regulatory approval by federal and state banking authorities, on January 14, 2009 the investment by CapGen Financial was closed and we issued, via a private placement to CapGen Capital Group II LP, an affiliate of CapGen Financial, 3,846,153 PacWest common shares at $26.00 per share for total cash consideration of approximately $100 million.

NOTE 12 REGISTRATION STATEMENT

On June 16, 2009, PacWest Bancorp filed a registration statement with the SEC to offer to sell, from time to time, shares of common stock, preferred stock, and other equity-linked securities, for an aggregate initial offering price of up to $150 million. The registration statement was declared effective on June 30, 2009. Proceeds from the offering are anticipated to be used to fund future acquisitions of banks and financial institutions and for general corporate purposes. To date, no shares have been offered under this registration statement.

NOTE 13 SUBSEQUENT EVENTS

Subsequent events are events and transactions that occur after the balance sheet date but before financial statements are issued or are available to be issued. The effects of subsequent events and transactions are recognized in the financial statements when they provide additional evidence about conditions that existed at the balance sheet date. We have evaluated events and transactions occurring subsequent to June 30, 2009, through the date of filing this report on Form 10-Q. Such evaluation resulted in no adjustments to the accompanying consolidated financial statements.

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Information

This Quarterly Report on Form 10-Q contains certain forward-looking information about the Company and its subsidiaries, which statements are intended to be covered by the safe harbor for "forward-looking statements" provided by the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact are forward-looking statements. Such statements involve inherent risks and uncertainties, many of which are difficult to predict and are generally beyond the control of the Company. We caution readers that a number of important factors could cause actual results to differ materially from those expressed in, implied or projected by, such forward-looking statements. Risks and uncertainties include, but are not limited to:

- lower than expected revenues;
- credit quality deterioration or pronounced and sustained reduction in real estate market values could cause an increase in the allowance for credit losses and a reduction in earnings;
- increased competitive pressure among depository institutions;
- the Company's ability to complete future acquisitions and to successfully integrate such acquired entities or achieve expected benefits, synergies and/or operating efficiencies within expected time-frames or at all;
- the possibility that personnel changes will not proceed as planned;
- the cost of additional capital is more than expected;
- a change in the interest rate environment reduces interest margins;
- asset/liability repricing risks and liquidity risks;
- pending legal matters may take longer or cost more to resolve or may be resolved adversely to the Company;
- general economic conditions, either nationally or in the market areas in which the Company does or anticipates doing business, are less favorable than expected;
- environmental conditions, including natural disasters, may disrupt our business, impede our operations, negatively impact the values of collateral securing the Company's loans or impair the ability of our borrowers to support their debt obligations;
- the economic and regulatory effects of the continuing war on terrorism and other events of war, including the conflicts in Iraq, Afghanistan, and neighboring countries;
- legislative or regulatory requirements or changes adversely affecting the Company's business;

changes in the securities markets; and

regulatory approvals for any capital activities cannot be obtained on the terms expected or on the anticipated schedule.

If any of these risks or uncertainties materializes, or if any of the assumptions underlying such forward-looking statements proves to be incorrect, our results could differ materially from those expressed in, implied or projected by, such forward-looking statements. The Company assumes no obligation to update such forward-looking statements.

Overview

We are a bank holding company registered under the Bank Holding Company Act of 1956, as amended. Our principal business is to serve as the holding company for our subsidiary bank, Pacific Western Bank, which we refer to as Pacific Western or the Bank.

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Pacific Western is a full-service community bank offering a broad range of banking products and services including: accepting time and demand deposits; originating loans, including commercial, real estate construction, SBA-guaranteed, consumer, and international loans; and providing other business-oriented products. Our operations are primarily located in Southern California and the Bank focuses on conducting business with small to medium-sized businesses and the owners and employees of those businesses in our marketplace. Through our asset-based lending operation we also operate in Arizona, Northern California, the Pacific Northwest, and Texas. At June 30, 2009, our assets totaled $4.5 billion, of which gross loans totaled $3.9 billion. At this date approximately 21% were commercial loans, 58% were commercial real estate loans, 8% were commercial real estate construction loans, 6% were residential real estate construction loans, 6% were residential real estate loans, and 1% were consumer and other loans. These percentages include some foreign loans, primarily to individuals or entities with business in Mexico, representing 1% of total loans. Our portfolio's value and credit quality is affected in large part by real estate trends in Southern California, which have been negative over the last several quarters.

Pacific Western competes actively for deposits, and emphasizes solicitation of noninterest-bearing deposits. In managing the top line of our business, we focus on quality loan growth and loan yield, deposit cost, and net interest margin, as net interest income, on a year-to-date basis, accounts for 90% of our net revenues (net interest income plus noninterest income).

Key Performance Indicators

Among other factors, our operating results depend generally on the following:

The Level of Our Net Interest Income

Net interest income is the excess of interest earned on our interest-earning assets over the interest paid on our interest-bearing liabilities. The decline in market interest rates and fierce competition for deposits has reduced our net interest margin from its historical highs. Based on our balance sheet structure the yield on our earning assets decreased more rapidly and significantly than the cost of our funding sources during 2008 and into 2009. Although both net interest income and the net interest margin improved in the second quarter of 2009 when compared to the prior quarter, the sustained low interest rate environment combined with tight marketplace liquidity, slow loan growth and the level of nonaccrual loans may further reduce both our net interest income and net interest margin going forward.

Our primary interest-earning asset is loans. Our primary interest-bearing liabilities are deposits, borrowings, and subordinated debentures. While our deposit balances will fluctuate depending on deposit holders' perceptions of alternative yields available in the market, we attempt to minimize these variances by attracting a high percentage of noninterest-bearing deposits, which have no expectation of yield. At June 30, 2009, approximately 38% of our total deposits were noninterest-bearing deposits.

The recent disruptions in the financial credit and liquidity markets have resulted in increased competition from financial institutions seeking to maintain liquidity and this has impacted deposit flows and the rates paid on certain deposit accounts. In addition to deposits, we have borrowing capacity under various credit lines which we use for liquidity needs such as funding loan demand, managing deposit flows and interim acquisition financing. This borrowing capacity is relatively flexible and has become one of the least expensive sources of funds. However, our borrowing lines are considered a secondary source of liquidity as we serve our local markets and customers with our deposit products.

Loan Growth

We generally seek new lending opportunities in the $500,000 to $10 million range, try to limit loan maturities for commercial loans to one year, for construction loans up to 18 months, and for commercial real estate loans up to ten years, and to price lending products so as to preserve our

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interest spread and net interest margin. We sometimes encounter strong competition in pursuing lending opportunities such that potential borrowers obtain loans elsewhere at lower rates than those we offer. We have continued to reduce our exposure to residential construction and foreign loans, including limiting the amount of new loans in these categories. Our ability to make new loans is dependent on economic factors in our market area, borrower qualifications, competition, and liquidity, among other items. We expect loan growth for 2009 to be negatively affected by the current state of the economy in Southern California and the competition among banks for liquidity. Although loans, net of unearned income, declined $83.5 million during the first half of 2009, new loans and advances on loan commitments totaled $367 million.

The Magnitude of Credit Losses

We stress credit quality in originating and monitoring the loans we make and measure our success by the levels of our nonperforming assets, net charge-offs and allowance for credit losses. Our allowance for credit losses is the sum of our allowance for loan losses and our reserve for unfunded loan commitments. Provisions for credit losses are charged to operations as and when needed for both on and off balance sheet credit exposure. Loans which are deemed uncollectible are charged off and deducted from the allowance for loan losses. Recoveries on loans previously charged off are added to the allowance for loan losses. During the three months ended June 30, 2009, we made a provision for credit losses totaling $18.0 million based upon our reserve methodology. We considered, among other factors, the level of net charge-offs, the level and trends of classified, criticized, and nonaccrual loans, usage trends of unfunded loan commitments, general market conditions, and portfolio concentrations.

We continually review our loans to determine whether there has been any deterioration in credit quality stemming from economic conditions or other factors which may affect collectibility of our loans. Changes in economic conditions, such as inflation, unemployment, consumer spending, increases in the general level of interest rates and negative conditions in borrowers' businesses could negatively impact our customers and cause us to adversely classify loans and increase portfolio loss factors. An increase in classified loans generally results in increased provisions for credit losses. Further deterioration in the real estate market may lead to increased provisions for credit losses because of our concentration in real estate loans.

The Level of Our Noninterest Expense

Our operating noninterest expense (a non-GAAP measurement defined as noninterest expense excluding goodwill write-offs) includes fixed and controllable overhead, the major components of which are compensation, occupancy, insurance and assessments, OREO expenses, data processing, professional fees and communications expense. We measure success in controlling such costs through monitoring of the efficiency ratio. We calculate the operating efficiency ratio by dividing operating noninterest expense by net revenues (the sum of net interest income plus noninterest income). Accordingly, a lower percentage reflects lower operating expenses relative to net revenue. The consolidated operating efficiency ratios have been as follows:

Quarterly Period	**Ratio**
Second quarter of 2009	85.5%
First quarter 2009	71.0%
Fourth quarter 2008	59.1%
Third quarter 2008	62.0%
Second quarter 2008	61.1%

The increase in the efficiency ratio for the linked quarters of 2009 was due mostly to the higher OREO costs and the special FDIC insurance assessment which together added 1,830 basis points to the second quarter efficiency ratio. Certain reporting periods include income or expense items that were significant to specific quarters' results and also influenced the operating efficiency ratio. The general

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increase in efficiency ratios over the last several quarters is caused mostly by lower interest income. Interest income levels have been negatively affected by slow loan growth and low market interest rates. See also Results of Operations *Earnings Performance* for further information on non-GAAP financial measures.

Critical Accounting Policies

The Company's accounting policies are fundamental to understanding management's discussion and analysis of results of operations and financial condition. The Company has identified several policies as being critical because they require management to make particularly difficult, subjective and/or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be reported under different conditions or using different assumptions. These policies relate to the allowance for credit losses and the carrying values of intangible assets and deferred income tax assets. For further information, refer to our Annual Report on Form 10-K for the year ended December 31, 2008.

Results of Operations

Earnings Performance

Certain discussion in this Form 10-Q contains non-GAAP financial disclosures for operating earnings, operating noninterest expense, and tangible capital. The Company uses certain non-GAAP financial measures to provide meaningful supplemental information regarding the Company's operational performance and to enhance investors' overall understanding of such financial performance. Operating earnings and operating noninterest expense are determined by eliminating the goodwill write-off. Because (a) goodwill is eliminated in determining regulatory capital levels and its impairment in no way impacts the Company's regulatory capital, (b) the goodwill write-off occurred in the first half of 2008 with no prior pattern of such write-offs, and (c) further goodwill write-offs are not expected as the asset has been totally eliminated and acquisition activity has been minor, we believe its exclusion from operating results allows investors to assess operating results on a normalized basis. Tangible common equity is a non-GAAP financial measure used by investors, analysts, and bank regulatory agencies. Tangible common equity includes total equity, less any preferred equity, goodwill and intangible assets. The methodology of determining tangible common equity may differ among companies. Management reviews tangible common equity along with other measures of capital adequacy on a regular basis and has included this non-GAAP financial information, and the corresponding reconciliation to total equity, because of current interest in such information on the part of market participants.

These non-GAAP financial measures are presented for supplemental informational purposes only for understanding the Company's operating results and should not be considered a substitute for financial information presented in accordance with United States generally accepted accounting principles (GAAP). The following table presents performance ratios in accordance with GAAP and a reconciliation of the non-GAAP financial measurements to the GAAP financial measurements.

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Non GAAP Measurements (Unaudited)

In thousands, except per share data and percentages	Quarter Ended June 30, 2009	Quarter Ended March 31, 2009	Quarter Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Net earnings (loss) as reported	$ (5,740)	$ 1,445	$ (474,514)	$ (4,295)	$ (747,237)
Goodwill write-off			486,701		761,701
Net operating earnings	$ (5,740)	$ 1,445	$ 12,187	$ (4,295)	$ 14,464
GAAP basic shares outstanding	31,067.6	30,495.2	27,166.8	30,783.0	27,156.0
Restricted stock and dilutive stock options	(a)	0.5	(a)	(a)	(a)
GAAP diluted shares outstanding	31,067.6	30,495.7	27,166.8	30,783.0	27,156.0
Operating earnings basic shares outstanding	31,067.6	30,495.2	27,166.8	30,783.0	27,156.0
Restricted stock and dilutive stock options	(a)	0.5	0.7	(a)	0.8
Operating earnings diluted shares outstanding	31,067.6	30,495.7	27,167.5	30,783.0	27,156.8
GAAP basic and diluted earnings (loss) per share	$ (0.18)	$ 0.04	$ (17.47)	$ (0.15)	$ (27.53)
Net operating diluted earnings per share	$ (0.18)	$ 0.04	$ 0.44	$ (0.15)	$ 0.52
GAAP return on average assets	(0.52)%	0.13%	(39.18)%	(0.19)%	(29.85)%
Net operating return on average assets	(0.52)%	0.13%	1.01%	(0.19)%	0.58%
GAAP return on average equity	(4.88)%	1.27%	(223.19)%	(1.86)%	(150.76)%
Net operating return on average equity	(4.88)%	1.27%	5.73%	(1.86)%	2.92%
Noninterest expense as reported	$ 47,931	$ 38,969	$ 524,047	$ 86,900	$ 834,259
Goodwill write-off			(486,701)		(761,701)
Operating noninterest expense	$ 47,931	$ 38,969	$ 37,346	$ 86,900	$ 72,558
GAAP efficiency ratio	85.5%	71.0%	857.2%	78.3%	664.9%
Net operating efficiency ratio	85.5%	71.0%	61.1%	78.3%	57.8%
End of period assets	$ 4,476,236	$ 4,496,070	$ 4,343,324		
Intangibles	35,417	37,675	38,771		
End of period tangible assets	$ 4,440,819	$ 4,458,395	$ 4,304,553		
End of period equity	$ 464,097	$ 469,006	$ 374,744		
Intangibles	35,417	37,675	38,771		
End of period tangible equity	$ 428,680	$ 431,331	$ 335,973		
Equity-to-assets ratio	10.37%	10.43%	8.63%		
Tangible common equity (TCE) ratio	9.65%	9.67%	7.81%		

Pacific Western Bank			
End of period assets	$ 4,468,870	$ 4,486,793	$ 4,332,562
Intangibles	35,417	37,675	38,771
End of period tangible assets	$ 4,433,453	$ 4,449,118	$ 4,293,791
End of period equity	$ 510,086	$ 506,694	$ 467,921
Intangibles	35,417	37,675	38,771
End of period tangible equity	$ 474,669	$ 469,019	$ 429,150
Equity-to-assets	11.41%	11.29%	10.80%
TCE ratio	10.71%	10.54%	9.99%

(a) Anti-dilutive.

Second quarter of 2009 compared to first quarter of 2009

Net loss totaled $5.7 million, or $0.18 per diluted share, for the quarter ended June 30, 2009, compared to net earnings of $1.4 million, or $0.04 per diluted share, for the quarter ended March 31,

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2009. The decrease in net earnings of $7.2 million between the second and first quarters of 2009 is due mainly to the combination of a higher provision for credit losses, higher OREO costs and the special FDIC deposit insurance assessment.

Second quarter of 2009 compared to the second quarter of 2008

The net loss for the quarter ended June 30, 2008 is due to the goodwill write-off. In response to the volatility in the banking industry and the effect such volatility had on banking stocks during 2008, including PacWest Bancorp's common stock, we wrote-off $275.0 million of goodwill in the first quarter of 2008 and the remaining balance of our goodwill totaling $486.7 million in the second quarter of 2008. Such charges had no effect on the Company's or the Bank's cash balances, liquidity or well-capitalized regulatory capital ratios.

Net operating earnings (defined as net loss excluding the goodwill write-off) was a net loss of $5.7 million, or $0.18 per diluted share, for the quarter ended June 30, 2009, compared to net operating earnings of $12.2 million, or $0.44 per diluted share, for the quarter ended June 30, 2008. The decrease in net operating earnings for the second quarter of 2009 compared to the same quarter of 2008 is due mainly to the combination of lower net interest income, higher provision for credit losses, higher OREO costs and higher FDIC insurance assessments.

Six Months Analysis

Net operating earnings was a loss of $4.3 million, or $0.15 per diluted share, for the six months ended June 30, 2009 compared to net operating earnings of $14.5 million, or $0.52 per diluted share, for the six months ended June 30, 2008. The decrease in net operating earnings for the year-to-date period is attributed to lower net interest income, a higher provision for credit losses and higher noninterest expense. The decrease in net interest income relates mostly to the decline in market interest rates and lower loan balances. The increase in noninterest expense is due mostly to higher OREO costs and FDIC insurance assessments.

Net Interest Income. Net interest income, which is our principal source of revenue, represents the difference between interest earned on assets and interest paid on liabilities. Net interest margin is net interest income expressed as a percentage of average interest-earning assets. Net interest income is affected by changes in both interest rates and the volume of average interest-earning assets and interest-bearing liabilities. The following table presents, for the periods indicated, the distribution of

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average assets, liabilities and stockholders' equity, as well as interest income and yields earned on average interest-earning assets and interest expense and costs on average interest-bearing liabilities:

	Quarter Ended								
	June 30, 2009			March 31, 2009			June 30, 2008		
	Average Balance	Interest Income/ Expense	Yields and Rates	Average Balance	Interest Income/ Expense	Yields and Rates	Average Balance	Interest Income/ Expense	Yields and Rates
	(Dollars in thousands)								
ASSETS									
Loans, net of deferred fees and costs(a)(b)	$3,921,561	$ 61,663	6.31%	$3,938,322	$ 61,847	6.37%	$3,970,704	$ 69,536	