

WESTAMERICA BANCORPORATION

Form 10-Q

November 01, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

or

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: 001-09383

WESTAMERICA BANCORPORATION

(Exact Name of Registrant as Specified in Its Charter)

CALIFORNIA

(State or Other Jurisdiction of
Incorporation or Organization)

94-2156203

(I.R.S. Employer
Identification No.)

1108 FIFTH AVENUE, SAN RAFAEL, CALIFORNIA 94901

(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, Including Area Code (707) 863-6000

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

No

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

No

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)

Accelerated filer
Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

Title of Class	Shares outstanding as of October 22, 2013
Common Stock, No Par Value	26,628,957

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FORWARD-LOOKING STATEMENTS

This report on Form 10-Q contains forward-looking statements about Westamerica Bancorporation for which it claims the protection of the safe harbor provisions contained in the Private Securities Litigation Reform Act of 1995. Examples of forward-looking statements include, but are not limited to: (i) projections of revenues, expenses, income or loss, earnings or loss per share, the payment or nonpayment of dividends, capital structure and other financial items; (ii) statements of plans, objectives and expectations of the Company or its management or board of directors, including those relating to products or services; (iii) statements of future economic performance; and (iv) statements of assumptions underlying such statements. Words such as "believes", "anticipates", "expects", "intends", "targeted", "projected", "continue", "remain", "will", "should", "may" and other similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

These forward-looking statements are based on Management's current knowledge and belief and include information concerning the Company's possible or assumed future financial condition and results of operations. A number of factors, some of which are beyond the Company's ability to predict or control, could cause future results to differ materially from those contemplated. These factors include but are not limited to (1) the length and severity of current and potential future difficulties in the global, national and California economies and the effects of government efforts to address those difficulties; (2) liquidity levels in capital markets; (3) fluctuations in asset prices including, but not limited to stocks, bonds, real estate, and commodities; (4) the effect of acquisitions and integration of acquired businesses; (5) economic uncertainty created by terrorist threats and attacks on the United States, the actions taken in response, and the uncertain effect of these events on the national and regional economies; (6) changes in the interest rate environment; (7) changes in the regulatory environment; (8) competitive pressure in the banking industry; (9) operational risks including data processing system failures or fraud; (10) volatility of interest rate sensitive loans, deposits and investments; (11) asset/liability management risks and liquidity risks; (12) the effect of natural disasters, including earthquakes, fire, flood, drought, and other disasters, on the uninsured value of loan collateral, the financial condition of debtors and issuers of investment securities, the economic conditions affecting the Company's market place, and commodities and asset values, and (13) changes in the securities markets. The reader is directed to the Company's annual report on Form 10-K for the year ended December 31, 2012, for further discussion of factors which could affect the Company's business and cause actual results to differ materially from those expressed in any forward-looking statement made in this report. The Company undertakes no obligation to update any forward-looking statements in this report.

PART I - FINANCIAL INFORMATION

Item 1 Financial Statements

WESTAMERICA BANCORPORATION
CONSOLIDATED BALANCE SHEETS
(unaudited)

	At September 30, 2013	At December 31, 2012
(In thousands)		
Assets:		
Cash and due from banks	\$388,579	\$ 491,382
Investment securities available for sale	1,060,428	825,636
Investment securities held to maturity, with fair values of: \$1,129,976 at September 30, 2013 and \$1,184,557 at December 31, 2012	1,141,083	1,156,041
Purchased covered loans	296,380	372,283
Purchased non-covered loans	57,838	74,891
Originated loans	1,523,090	1,664,183
Allowance for loan losses	(31,916)	(30,234)
Total loans	1,845,392	2,081,123
Non-covered other real estate owned	5,697	12,661
Covered other real estate owned	9,273	13,691
Premises and equipment, net	37,972	38,639
Identifiable intangibles, net	19,714	23,261
Goodwill	121,673	121,673
Other assets	176,676	188,086
Total Assets	\$4,806,487	\$ 4,952,193
Liabilities:		
Noninterest bearing deposits	\$1,689,986	\$ 1,676,071
Interest bearing deposits	2,418,321	2,556,421
Total deposits	4,108,307	4,232,492
Short-term borrowed funds	47,821	53,687
Federal Home Loan Bank advances	25,631	25,799
Term repurchase agreement	10,000	10,000
Debt financing	15,000	15,000
Other liabilities	57,888	55,113
Total Liabilities	4,264,647	4,392,091
Shareholders' Equity:		
Common stock (no par value), authorized - 150,000 shares issued and outstanding: 26,578 at September 30, 2013 and 27,213 at December 31, 2012	371,088	372,012
Deferred compensation	2,711	3,101
Accumulated other comprehensive income	4,120	14,625
Retained earnings	163,921	170,364
Total Shareholders' Equity	541,840	560,102
Total Liabilities and Shareholders' Equity	\$4,806,487	\$ 4,952,193

See accompanying notes to unaudited consolidated financial statements.

WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

	For the Three Months		For the Nine Months	
	Ended September 30,			
	2013	2012	2013	2012
	(In thousands, except per share data)			
Interest and Fee Income:				
Loans	\$25,116	\$31,779	\$78,696	\$101,180
Investment securities available for sale	5,426	4,918	16,293	14,644
Investment securities held to maturity	7,414	8,575	22,701	24,646
Total Interest and Fee Income	37,956	45,272	117,690	140,470
Interest Expense:				
Deposits	809	1,020	2,555	3,314
Short-term borrowed funds	20	15	58	63
Term repurchase agreement	25	25	73	74
Federal Home Loan Bank advances	122	122	360	361
Debt financing	200	200	601	601
Total Interest Expense	1,176	1,382	3,647	4,413
Net Interest Income	36,780	43,890	114,043	136,057
Provision for Loan Losses	1,800	2,800	6,400	8,400
Net Interest Income After Provision For Loan Losses	34,980	41,090	107,643	127,657
Noninterest Income:				
Service charges on deposit accounts	6,433	6,847	19,427	20,969
Merchant processing services	2,151	2,411	6,973	7,333
Debit card fees	1,467	1,308	4,302	3,816
Other service fees	716	729	2,174	2,122
ATM processing fees	701	782	2,128	2,648
Trust fees	567	540	1,720	1,526
Financial services commissions	150	175	614	540
Loss on sale of securities	-	-	-	(1,287)
Other	2,234	1,834	5,643	5,161
Total Noninterest Income	14,419	14,626	42,981	42,828
Noninterest Expense:				
Salaries and related benefits	13,826	14,294	42,293	43,833
Occupancy	3,829	3,901	11,353	11,609
Outsourced data processing services	2,139	2,156	6,436	6,318
Amortization of identifiable intangibles	1,163	1,336	3,547	4,076
Furniture and equipment	974	991	2,875	2,883
Professional fees	730	786	2,109	2,455
Courier service	725	772	2,204	2,350
Other real estate owned	179	679	791	912
Other	4,193	4,354	13,019	14,215
Total Noninterest Expense	27,758	29,269	84,627	88,651
Income Before Income Taxes	21,641	26,447	65,997	81,834
Provision for income taxes	4,903	6,425	14,876	19,843
Net Income	\$16,738	\$20,022	\$51,121	\$61,991
Average Common Shares Outstanding	26,670	27,513	26,900	27,769

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Diluted Average Common Shares Outstanding	26,705	27,565	26,919	27,821
Per Common Share Data:				
Basic earnings	\$0.63	\$0.73	\$1.90	\$2.23
Diluted earnings	0.63	0.73	1.90	2.23
Dividends paid	0.37	0.37	1.11	1.11

See accompanying notes to unaudited consolidated financial statements.

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WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	For the Three Months		For the Nine Months	
	Ended September 30,			
	2013	2012	2013	2012
	(In thousands)			
Net income	\$16,738	\$20,022	\$51,121	\$61,991
Other comprehensive (loss) income:				
(Decrease) increase in net unrealized gains on securities available for sale	(712)	2,441	(18,173)	5,277
Decrease (increase) in deferred tax expense	299	(1,026)	7,641	(2,219)
(Decrease) increase in net unrealized gains on securities available for sale, net of tax	(413)	1,415	(10,532)	3,058
Post-retirement benefit transition obligation amortization	15	15	45	45
Deferred tax expense	(6)	(6)	(18)	(18)
Post-retirement benefit transition obligation amortization, net of tax	9	9	27	27
Total other comprehensive (loss) income	(404)	1,424	(10,505)	3,085
Total comprehensive income	\$16,334	\$21,446	\$40,616	\$65,076

See accompanying notes to unaudited consolidated financial statements.

WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(unaudited)

	Common Shares Outstanding	Common Stock	Accumulated Deferred Compensation	Accumulated Other Comprehensive Income (Loss) (In thousands)	Retained Earnings	Total
Balance, December 31, 2011	28,150	\$ 377,775	\$ 3,060	\$ 11,369	\$ 166,437	\$558,641
Net income for the period					61,991	61,991
Other comprehensive income				3,085		3,085
Exercise of stock options	69	2,917				2,917
Tax benefit decrease upon exercise of stock options		(9)				(9)
Restricted stock activity	11	482	41			523
Stock based compensation		1,180				1,180
Stock awarded to employees	2	74				74
Purchase and retirement of stock	(836)	(11,208)			(27,478)	(38,686)
Dividends					(30,875)	(30,875)
Balance, September 30, 2012	27,396	\$ 371,211	\$ 3,101	\$ 14,454	\$ 170,075	\$558,841
Balance, December 31, 2012	27,213	\$ 372,012	\$ 3,101	\$ 14,625	\$ 170,364	\$560,102
Net income for the period					51,121	51,121
Other comprehensive loss				(10,505)		(10,505)
Exercise of stock options	221	9,219				9,219
Tax benefit decrease upon exercise of stock options		(202)				(202)
Restricted stock activity	15	1,068	(390)			678
Stock based compensation		1,081				1,081
Stock awarded to employees	2	84				84
Purchase and retirement of stock	(873)	(12,174)			(27,615)	(39,789)
Dividends					(29,949)	(29,949)
Balance, September 30, 2013	26,578	\$ 371,088	\$ 2,711	\$ 4,120	\$ 163,921	\$541,840

See accompanying notes to unaudited consolidated financial statements.

WESTAMERICA BANCORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	For the Nine Months Ended September 30,	
	2013	2012
	(In thousands)	
Operating Activities:		
Net income	\$51,121	\$61,991
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,325	10,574
Loan loss provision	6,400	8,400
Net amortization of deferred loan fees	(333)	(402)
Decrease in interest income receivable	1,420	1,183
Decrease (increase) in other assets	7,344	(155)
Increase in income taxes payable	856	500
Increase in net deferred tax asset	(3,719)	(7,370)
Increase (decrease) in interest expense payable	50	(97)
(Decrease) increase in other liabilities	(984)	12,696
Stock option compensation expense	1,081	1,180
Tax benefit decrease upon exercise of stock options	202	9
Loss on sale of securities available for sale	-	1,287
Gain on sale of other assets	(548)	(656)
Net loss on sale of premises and equipment	16	78
Originations of mortgage loans for resale	(441)	(597)
Net proceeds from sale of mortgage loans originated for resale	447	626
Net gain on sale of foreclosed assets	(892)	(2,545)
Writedown of foreclosed assets	1,752	3,033
Net Cash Provided by Operating Activities	77,097	89,735
Investing Activities:		
Net repayments of loans	231,002	296,278
Proceeds from FDIC1 loss-sharing indemnification	6,478	25,768
Purchases of investment securities available for sale	(355,440)	(211,349)
Purchases of investment securities held to maturity	(152,116)	(410,829)
Proceeds from sale/maturity/calls of securities available for sale	100,660	116,916
Proceeds from maturity/calls of securities held to maturity	164,369	156,363
Net change in FRB2/FHLB3 securities	2,243	1,336
Proceeds from sale of foreclosed assets	14,986	23,155
Purchases of premises and equipment	(1,581)	(3,875)
Net Cash Provided by (Used in) Investing Activities	10,601	(6,237)
Financing Activities:		
Net change in deposits	(123,914)	(118,868)
Net change in short-term borrowings and FHLB3 advances	(5,866)	(60,058)
Exercise of stock options	9,219	2,917
Tax benefit decrease upon exercise of stock options	(202)	(9)
Repurchases/retirement of stock	(39,789)	(38,686)
Dividends paid	(29,949)	(30,875)

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Net Cash Used in Financing Activities	(190,501)	(245,579)
Net Change In Cash and Due from Banks	(102,803)	(162,081)
Cash and Due from Banks at Beginning of Period	491,382	530,045
Cash and Due from Banks at End of Period	\$388,579	\$367,964

Supplemental Cash Flow Disclosures:

Supplemental disclosure of non cash activities:

Loan collateral transferred to other real estate owned	\$5,404	\$6,362
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Supplemental disclosure of cash flow activities:

Interest paid for the period	3,982	5,091
Income tax payments for the period	17,931	27,466

See accompanying notes to unaudited consolidated financial statements.

1 Federal Deposit Insurance Corporation ("FDIC")

2 Federal Reserve Bank ("FRB")

3 Federal Home Loan Bank ("FHLB")

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. The results of operations reflect interim adjustments, all of which are of a normal recurring nature and which, in the opinion of Management, are necessary for a fair presentation of the results for the interim periods presented. The interim results for the three and nine months ended September 30, 2013 and 2012 are not necessarily indicative of the results expected for the full year. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes as well as other information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

The Company has evaluated events and transactions subsequent to the balance sheet date. Based on this evaluation, the Company is not aware of any events or transactions that occurred subsequent to the balance sheet date but prior to filing that would require recognition or disclosure in its unaudited consolidated financial statements.

Note 2: Accounting Policies

The Company's accounting policies are discussed in Note 1 to the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. Certain amounts in prior periods have been reclassified to conform to the current presentation.

Certain accounting policies underlying the preparation of these financial statements require Management to make estimates and judgments. These estimates and judgments may significantly affect reported amounts of assets and liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. Management exercises judgment to estimate the appropriate level of the allowance for credit losses, the acquisition date fair value of purchased loans, and the evaluation of other than temporary impairment of investment securities, which are discussed in the Company's accounting policies.

Recently Adopted Accounting Standards

FASB ASU 2012-06, Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution, was issued October 2012 to provide guidance for consistently measuring an indemnification asset subsequent to acquisition. Subsequent accounting for changes in the measurement of the indemnification asset should be on the same basis as a change in the assets subject to indemnification. Any amortization of changes in value is limited to the shorter of the contractual term of the indemnification agreement or the remaining life of the indemnified assets. The Company's historical accounting treatment is consistent with ASU 2012-06, and therefore there was no effect on the Company's financial statements at January 1, 2013, when adopted.

FASB ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, was issued February 2013 requiring an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. The adoption of the

update did not have a material effect on the Company's financial statements at January 1, 2013, the date adopted. The Company's only item reclassified out of other comprehensive income to net income is the amortization of unrecognized post retirement benefit transition obligation, which is immaterial for purposes of disclosure.

Recently Issued Accounting Standards

FASB ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, was issued July 2013 to provide guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar loss, or a tax credit carryforward exists. The update provides that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward, unless an exception applies. The Company does not expect the adoption of this update to have a material effect on the financial statements when adopted on January 1, 2014.

Note 3: Investment Securities

An analysis of the amortized cost, unrealized gains and losses accumulated in other comprehensive income, and fair value of investment securities available for sale follows:

	Investment Securities Available for Sale			
	At September 30, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
U.S. Treasury securities	\$ 3,507	\$ 17	\$ -	3,524
Securities of U.S. Government sponsored entities	95,810	119	(201)	95,728
Residential mortgage-backed securities	34,862	2,095	(13)	36,944
Commercial mortgage-backed securities	3,559	23	-	3,582
Obligations of States and political subdivisions	188,164			