

WESTAMERICA BANCORPORATION

Form 10-Q

May 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 March 31, 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: 001-9383

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):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting

company

(Do not check if a smaller reporting company)

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

Yes []

No [x]

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 April 23, 2013
Common Stock, No Par Value	26,980,635

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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 March 31, 2013	At December 31, 2012
	(In thousands)	
Assets:		
Cash and due from banks	\$355,459	\$ 491,382
Investment securities available for sale	972,176	825,636
Investment securities held to maturity, with fair values of: \$1,185,641 at March 31, 2013 and \$1,184,557 at December 31, 2012	1,162,358	1,156,041
Purchased covered loans	353,034	372,283
Purchased non-covered loans	70,504	74,891
Originated loans	1,613,396	1,664,183
Allowance for loan losses	(30,354)	(30,234)
Total loans	2,006,580	2,081,123
Non-covered other real estate owned	9,671	12,661
Covered other real estate owned	13,713	13,691
Premises and equipment, net	38,519	38,639
Identifiable intangibles, net	22,042	23,261
Goodwill	121,673	121,673
Other assets	185,653	188,086
Total Assets	\$4,887,844	\$ 4,952,193
Liabilities:		
Noninterest bearing deposits	\$1,621,887	\$ 1,676,071
Interest bearing deposits	2,540,063	2,556,421
Total deposits	4,161,950	4,232,492
Short-term borrowed funds	61,854	53,687
Federal Home Loan Bank advances	25,743	25,799
Term repurchase agreement	10,000	10,000
Debt financing	15,000	15,000
Other liabilities	54,317	55,113
Total Liabilities	4,328,864	4,392,091
Shareholders' Equity:		
Common stock (no par value), authorized - 150,000 shares Issued and outstanding: 27,018 at March 31, 2013 and 27,213 at December 31, 2012	373,579	372,012
Deferred compensation	3,101	3,101
Accumulated other comprehensive income	15,372	14,625
Retained earnings	166,928	170,364
Total Shareholders' Equity	558,980	560,102
Total Liabilities and Shareholders' Equity	\$4,887,844	\$ 4,952,193

See accompanying notes to unaudited consolidated financial statements.

WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

	For the Three Months Ended March 31,	
	2013	2012
	(In thousands, except per share data)	
Interest and Fee Income:		
Loans	\$ 27,399	\$ 35,656
Investment securities available for sale	5,336	4,788
Investment securities held to maturity	7,730	7,854
Total Interest and Fee Income	40,465	48,298
Interest Expense:		
Deposits	899	1,187
Short-term borrowed funds	11	27
Term repurchase agreement	24	25
Federal Home Loan Bank advances	118	120
Debt financing	200	200
Total Interest Expense	1,252	1,559
Net Interest Income	39,213	46,739
Provision for Loan Losses	2,800	2,800
Net Interest Income After Provision For Loan Losses	36,413	43,939
Noninterest Income:		
Service charges on deposit accounts	6,542	7,095
Merchant processing services	2,409	2,393
Debit card fees	1,358	1,163
ATM processing fees	705	933
Trust fees	568	489
Financial services commissions	180	171
Other	2,516	2,425
Total Noninterest Income	14,278	14,669
Noninterest Expense:		
Salaries and related benefits	14,403	15,046
Occupancy	3,886	3,934
Outsourced data processing services	2,157	2,083
Amortization of identifiable intangibles	1,219	1,402
Furniture and equipment	880	851
Courier service	741	785
Professional fees	635	767
Other real estate owned	334	230
Other	4,422	4,936
Total Noninterest Expense	28,677	30,034
Income Before Income Taxes	22,014	28,574
Provision for income taxes	4,743	7,569
Net Income	\$ 17,271	\$ 21,005
 Average Common Shares Outstanding	 27,145	 28,051

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Diluted Average Common Shares Outstanding	27,157	28,111
Per Common Share Data:		
Basic earnings	\$ 0.64	\$ 0.75
Diluted earnings	0.64	0.75
Dividends paid	0.37	0.37

See accompanying notes to unaudited consolidated financial statements.

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WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	For the Three Months Ended	
	March 31,	
	2013	2012
	(In thousands)	
Net income	\$ 17,271	\$ 21,005
Other comprehensive income:		
Increase in net unrealized gains on securities available for sale	1,272	1,384
Deferred tax expense	(534)	(582)
Increase in net unrealized gains on securities available for sale, net of tax	738	802
Post-retirement benefit transition obligation amortization	15	15
Deferred tax expense	(6)	(6)
Post-retirement benefit transition obligation amortization, net of tax	9	9
Total other comprehensive income	747	811
Total comprehensive income	\$ 18,018	\$ 21,816

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	Retained Earnings	Total
	(In thousands)					
Balance, December 31, 2011	28,150	\$ 377,775	\$ 3,060	\$ 11,369	\$ 166,437	\$558,641
Net income for the period					21,005	21,005
Other comprehensive income				811		811
Exercise of stock options	15	641				641
Tax benefit increase upon exercise of stock options		4				4
Restricted stock activity		220	(220)			-
Stock based compensation		435				435
Stock awarded to employees	1	45				45
Purchase and retirement of stock	(249)	(3,370)			(8,290)	(11,660)
Dividends					(10,394)	(10,394)
Balance, March 31, 2012	27,917	\$ 375,750	\$ 2,840	\$ 12,180	\$ 168,758	\$559,528
Balance, December 31, 2012	27,213	\$ 372,012	\$ 3,101	\$ 14,625	\$ 170,364	\$560,102
Net income for the period					17,271	17,271
Other comprehensive income				747		747
Exercise of stock options	151	6,156				6,156
Tax benefit decrease upon exercise of stock options		(191)				(191)
Stock based compensation		379				379
Stock awarded to employees	1	42				42
Purchase and retirement of stock	(347)	(4,819)			(10,623)	(15,442)
Dividends					(10,084)	(10,084)
Balance, March 31, 2013	27,018	\$ 373,579	\$ 3,101	\$ 15,372	\$ 166,928	\$558,980

See accompanying notes to unaudited consolidated financial statements.

WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	For the Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Operating Activities:		
Net income	\$ 17,271	\$ 21,005
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,322	3,499
Loan loss provision	2,800	2,800
Net amortization of deferred loan fees	(80)	(126)
(Increase) decrease in interest income receivable	(199)	733
(Increase) decrease in deferred tax asset	(673)	183
Increase in other assets	(663)	(4,655)
Stock option compensation expense	379	435
Tax benefit decrease (increase) upon exercise of stock options	191	(4)
Increase in income taxes payable	5,482	7,386
Increase in interest expense payable	252	149
(Decrease) increase in other liabilities	(6,726)	1,771
Gain on sale of other assets	(274)	(150)
Loss on sale of premises and equipment	6	-
Originations of mortgage loans for resale	(90)	-
Proceeds from sale of mortgage loans originated for resale	92	-
Net gain on sale of foreclosed assets	(181)	(1,779)
Writedown of foreclosed assets	592	1,712
Net Cash Provided by Operating Activities	22,501	32,959
Investing Activities:		
Net repayments of loans	72,880	95,748
Proceeds from FDIC* loss-sharing agreement	1,344	2,628
Purchases of investment securities available for sale	(175,901)	(25,418)
Proceeds from sale/maturity/calls of securities available for sale	30,166	31,317
Purchases of investment securities held to maturity	(59,677)	(151,958)
Proceeds from maturity/calls of securities held to maturity	51,876	48,123
Purchases of premises and equipment	(617)	(1,940)
Proceeds from sale of FRB/FHLB** stock	738	451
Proceeds from sale of foreclosed assets	2,611	10,277
Net Cash (Used in) Provided by Investing Activities	(76,580)	9,228
Financing Activities:		
Net change in deposits	(70,450)	(716)
Net change in short-term borrowings	8,167	(9,005)
Exercise of stock options/issuance of shares	6,156	641
Tax benefit (decrease) increase upon exercise of stock options	(191)	4
Retirement of common stock including repurchases	(15,442)	(11,660)
Common stock dividends paid	(10,084)	(10,394)

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Net Cash Used in Financing Activities	(81,844)	(31,130)
Net Change In Cash and Due from Banks	(135,923)	11,057
Cash and Due from Banks at Beginning of Period	491,382	530,045
Cash and Due from Banks at End of Period	\$ 355,459	\$ 541,102

Supplemental Cash Flow Disclosures:

Supplemental disclosure of noncash activities:

Loan collateral transferred to other real estate owned	\$ 640	\$ 1,583
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Supplemental disclosure of cash flow activities:

Interest paid for the period	1,132	1,642
Income tax payments for the period	126	-

See accompanying notes to unaudited consolidated financial statements.

* Federal Deposit Insurance Corporation ("FDIC")

** Federal Reserve Bank/Federal Home Loan Bank ("FRB/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 months ended March 31, 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, 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.

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Note 3: Investment Securities

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 March 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
U.S. Treasury securities	\$ 3,516	\$ 31	\$ -	\$ 3,547
Securities of U.S. Government sponsored entities	44,236	166	(10)	44,392
Residential mortgage-backed securities	45,756	3,157	(3)	48,910
Commercial mortgage-backed securities	3,827	63	-	3,890
Obligations of States and political subdivisions	195,326	13,040	(275)	208,091
Residential collateralized mortgage obligations	268,282	2,140	(509)	269,913
Asset-backed securities	15,686	25	(98)	15,613
FHLMC and FNMA stock	825	4,872	(3)	5,694
Corporate securities	365,847	3,739	(673)	368,913
Other securities	2,058	1,227	(72)	3,213
Total	\$ 945,359	\$ 28,460	\$ (1,643)	\$ 972,176

The amortized cost, unrealized gains and losses, and fair value of investment securities held to maturity follows:

	Investment Securities Held to Maturity			
	At March 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities of U.S. Government sponsored entities	\$ 2,747	\$ 28	\$ -	\$ 2,775
Residential mortgage-backed securities	68,417	1,774	(14)	70,177
Obligations of States and political subdivisions	720,514	18,378	(2,913)	735,979
Residential collateralized mortgage obligations	370,680	6,401	(371)	376,710
Total	\$ 1,162,358	\$ 26,581	\$ (3,298)	\$ 1,185,641

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 December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
U.S. Treasury securities	\$ 3,520	\$ 38	\$ -	\$ 3,558
	49,335	207	(17)	49,525

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Securities of U.S. Government sponsored entities

Residential mortgage-backed securities	53,078	3,855	(1)	56,932
Commercial mortgage-backed securities	4,076	69	-	4,145
Obligations of States and political subdivisions	200,769	14,730	(252)	215,247
Residential collateralized mortgage obligations	219,613	1,786	(294)	221,105
Asset-backed securities	16,130	18	(143)	16,005
FHLMC and FNMA stock	824	2,061	(5)	2,880
Corporate securities	250,655	3,009	(826)	252,838
Other securities	2,091	1,370	(60)	3,401
Total	\$ 800,091	\$ 27,143	\$ (1,598)	\$ 825,636

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The amortized cost, unrealized gains and losses, and fair value of investment securities held to maturity follows:

	Investment Securities Held to Maturity			
	At December 31, 2012			
	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
	(In thousands)			
Securities of U.S. Government sponsored entities	\$ 3,232	\$ 43	\$ -	\$ 3,275
Residential mortgage-backed securities	72,807	2,090	(10)	