FIRST COMMUNITY BANCORP /CA/
Form 10-Q
November 08, 2007

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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 September 30, 2007

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

FIRST COMMUNITY BANCORP

(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "Accelerated Filer and Large Accelerated Filer" in Rule 12b-2 of the Exchange Act. (check one): Large Accelerated Filer ý Accelerated Filer o Non-accelerated Filer 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 November 1, 2007 there were 27,966,667 shares of the registrant's common stock outstanding, excluding 866,187 shares of unvested restricted stock.

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

ITEM 1. Unaudited Condensed Consolidated Financial Statements

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2007	December 31, 2006
	(Dollars in thousands, except share data)	
Assets:		
Cash and due from banks	$ 124,755	$ 128,910
Federal funds sold	35,000	22,000
Total cash and cash equivalents	159,755	150,910
Interest-bearing deposits in financial institutions	362	501
Investments:		
Federal Home Loan Bank stock, at cost	17,379	28,747
Securities available-for-sale (amortized cost of $70,654 at September 30, 2007 and $91,675 at December 31, 2006)	70,656	91,381
Total investments	88,035	120,128
Loans, held for sale	99,463	173,319
Loans, net of fees	3,807,686	4,189,543
Allowance for loan losses	(50,568)	(52,908)
Net loans	3,757,118	4,136,635
Premises and equipment, net	26,733	37,102
Accrued interest receivable	19,569	21,388
Goodwill	764,177	738,083
Core deposit and customer relationship intangibles	46,406	50,427
Cash surrender value of life insurance	67,166	67,512
Other assets	56,592	57,318
Total assets	$ 5,085,376	$ 5,553,323
Liabilities and Shareholders' Equity:		
Deposits:		
Noninterest-bearing	$ 1,317,277	$ 1,571,361
Interest-bearing	2,125,048	2,114,372
Total deposits	3,442,325	3,685,733
Accrued interest payable and other liabilities	46,683	51,043
Borrowings	275,008	499,000
Subordinated debentures	138,588	149,219
Total liabilities	3,902,604	4,384,995
Shareholders' equity:		
Preferred stock, no par value; Authorized 5,000,000 shares; none issued and outstanding		
Common stock, no par value; Authorized 50,000,000 shares; issued and outstanding 29,210,474 at September 30, 2007 and 29,635,957 at December 31, 2006 (includes 876,520 and 750,014 shares of unvested restricted stock, respectively)	989,677	1,020,132

	September 30, 2007	December 31, 2006
Retained earnings	193,094	148,367
Accumulated other comprehensive loss unrealized gains (losses) on securities available-for-sale, net	1	(171)
Total shareholders' equity	1,182,772	1,168,328
Total liabilities and shareholders' equity	$ 5,085,376	$ 5,553,323

See "Notes to Unaudited Condensed Consolidated Financial Statements."

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(In thousands, except per share data)			
Interest income:				
Interest and fees on loans	$ 85,649	$ 74,726	$ 260,875	$ 203,005
Interest on federal funds sold	605	62	1,728	192
Interest on deposits in financial institutions	5	4	17	24
Interest on investment securities	1,268	2,730	4,006	7,484
Total interest income	87,527	77,522	266,626	210,705
Interest expense:				
Deposits	14,924	8,617	42,080	21,382
Borrowings	3,562	4,238	13,728	9,519
Subordinated debentures	2,758	2,922	8,646	8,069
Total interest expense	21,244	15,777	64,454	38,970
Net interest income	66,283	61,745	202,172	171,735
Provision for credit losses				9,600
Net interest income after provision for credit losses	66,283	61,745	202,172	162,135
Noninterest income:				
Service charges and fees on deposit accounts	2,877	2,412	8,544	5,957
Other commissions and fees	1,903	1,495	5,202	4,573
Gain (loss) on sale of loans, net	(323)		8,981	
Increase in cash surrender value of life insurance	597	616	1,840	1,568
Other income	628	124	2,995	473
Total noninterest income	5,682	4,647	27,562	12,571
Noninterest expense:				
Compensation	17,582	15,708	54,771	45,803
Occupancy	4,799	3,809	14,285	10,859
Furniture and equipment	1,258	1,073	3,746	2,815
Data processing	1,507	1,773	4,532	4,827
Other professional services	1,574	1,529	4,806	3,665
Business development	780	327	2,336	1,027
Communications	825	839	2,498	2,214
Insurance and assessments	468	716	1,259	1,680
Intangible asset amortization	2,574	1,791	7,053	4,517
Reorganization charges			1,341	407
Other	3,157	2,562	9,287	6,928
Total noninterest expense	34,524	30,127	105,914	84,742
Earnings before income taxes and effect of accounting change	37,441	36,265	123,820	89,964
Income taxes	15,245	14,890	50,553	36,877
Net earnings before cumulative effect of accounting change	22,196	21,375	73,267	53,087
Cumulative effect on prior years (to December 31, 2005) of changing the method of accounting for stock-based compensation forfeitures				142

	Quarter Ended September 30,		Nine Months Ended September 30,	
Net earnings	$ 22,196	$ 21,375	$ 73,267	$ 53,229
Outstanding shares:				
Number of shares (weighted average):				
Basic	28,899.3	24,252.3	28,884.2	22,064.3
Diluted	28,988.0	24,407.6	29,001.9	22,289.4
Basic earnings per share:				
Net earnings before accounting change	$ 0.77	$ 0.88	$ 2.54	$ 2.41
Accounting change(1)				
Basic earnings per share	$ 0.77	$ 0.88	$ 2.54	$ 2.41
Diluted earnings per share:				
Net earnings before accounting change	$ 0.77	$ 0.88	$ 2.53	$ 2.39
Accounting change(1)				
Diluted earnings per share	$ 0.77	$ 0.88	$ 2.53	$ 2.39
Dividends declared per share	$ 0.32	$ 0.32	$ 0.96	$ 0.89

(1) Less than $0.01 per share for the nine months ended September 30, 2006.

See "Notes to Unaudited Condensed Consolidated Financial Statements."

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
	(Dollars in thousands)			
Net earnings	$ 22,196	$ 21,375	$ 73,267	$ 53,229
Other comprehensive income, net of related income taxes:				
Unrealized holding gains on securities arising during the period	346	1,309	172	938
Comprehensive income	$ 22,542	$ 22,684	$ 73,439	$ 54,167

See "Notes to Unaudited Condensed Consolidated Financial Statements."

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2007	2006
	(Dollars in thousands)	
Cash flows from operating activities:		
Net earnings	$ 73,267	$ 53,229
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	11,271	8,106
Provision for credit losses		9,600
Gain on sale of loans	(8,981)	
Proceeds from sale of loans held for sale	94,459	
Originations of and principal advanced on loans held for sale	(16,234)	
Gain on sale of premises and equipment	(433)	(6)
Restricted stock amortization	6,770	5,322
Excess tax benefit from stock option exercises and restricted stock vesting	(3,365)	(6,593)
Decrease in accrued and deferred income taxes, net	8,043	4,529
Decrease in other assets	2,251	3,738
Decrease in accrued interest payable and other liabilities	(8,584)	(20,473)
Dividends on FHLB stock	(1,012)	(583)
Net cash provided by operating activities	157,452	56,869
Cash flows from investing activities:		
Net cash and cash equivalents paid in acquisitions	(1,566)	(24,712)
Net decrease (increase) in loans	112,652	(179,821)
Proceeds from sale of loans	355,238	4,859
Net decrease in deposits in financial institutions	139	1,698
Collections on sales of acquired securities		32,050
Maturities and repayments of investment securities	42,156	59,225
Purchases of investment securities	(20,877)	(2,039)
Net redemptions of FRB and FHLB stock	12,396	2,773
Proceeds from sale of other real estate owned	479	37
Purchases of premises and equipment, net	(3,662)	(5,268)
Proceeds from sale of premises and equipment	9,684	8
Net cash provided by (used in) investing activities	506,639	(111,190)
Cash flows from financing activities:		
Net decrease in noninterest-bearing deposits	(254,084)	(182,667)
Net increase (decrease) in interest-bearing deposits	10,677	(196,830)
Redemption of subordinated debentures	(10,310)	
Proceeds from issuance of common stock		109,456
Repurchase of common stock	(69,016)	
Net proceeds from exercise of stock options and vesting of restricted stock	738	6,434
Tax benefit of stock option exercises and restricted and performance stock vesting	3,365	6,593
Net (decrease) increase in borrowings	(224,000)	353,100
Repayment of acquired debt	(84,076)	
Cash dividends paid	(28,540)	(20,470)
Net cash (used in) provided by financing activities	(655,246)	75,616
Net increase in cash and cash equivalents	8,845	21,295
Cash and cash equivalents at beginning of period	150,910	105,262
Cash and cash equivalents at end of period	$ 159,755	$ 126,557

	Nine Months Ended September 30,	
Supplemental disclosure of cash flow information:		
Cash paid during period for interest	$ 64,750	$ 36,510
Cash paid during period for income taxes	43,937	32,431
Transfer of loans to other real estate and other assets owned	360	
Transfer from loans held for sale to loans	28,688	
Transfer from loans to loans held for sale	379,692	4,888

See "Notes to Unaudited Condensed Consolidated Financial Statements."

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	Nine Months Ended September 30, 2007				
	Common Stock			Accumulated Other	
	Shares	Amount	Retained Earnings	Comprehensive Income (Loss)	Total
	(Dollars in thousands, except share data)				
Balance at December 31, 2006	29,635,957	$ 1,020,132	$ 148,367	$ (171)	$ 1,168,328
Net earnings			73,267		73,267
Exercise of stock options	130,561	2,692			2,692
Shares issued in acquisitions	494,606	27,688			27,688
Shares purchased and retired	(1,285,438)	(69,016)			(69,016)
Tax benefits from exercise of options and vesting of restricted stock		3,365			3,365
Restricted stock awarded and earned stock compensation, net of shares forfeited	271,051	6,770			6,770
Restricted stock surrendered	(36,263)	(1,954)			(1,954)
Cash dividends paid ($0.96 per share)			(28,540)		(28,540)
Other comprehensive income decrease in net unrealized loss on securities available-for-sale, net of tax effect of $125 thousand				172	172
Balance at September 30, 2007	29,210,474	$ 989,677	$ 193,094	$ 1	$ 1,182,772

See "Notes to Unaudited Condensed Consolidated Financial Statements."

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2007

NOTE 1 BASIS OF PRESENTATION

We are 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. As of September 30, 2007, our sole banking subsidiary was 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 "First Community" or to the holding company, we are referring to the parent company on a stand-alone basis.

We have completed 19 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. 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 U.S. generally accepted accounting principles 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 U.S. generally accepted accounting principles. 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.

(c) Reclassifications

Certain prior period amounts have been reclassified to conform to the current year's presentation.

NOTE 2 ACQUISITIONS

During 2007 and 2006 we completed the following four acquisitions using the purchase method of accounting, and accordingly, the operating results of the acquired entities have been included in the consolidated financial statements from their respective dates of acquisition.

Acquisition	**Cedars Bank**	**Foothill Independent Bancorp**	**Community Bancorp**	**BFI Business Finance**
Date Acquired	**January 2006**	**May 2006**	**October 2006**	**June 2007**
		(Dollars in thousands)		
Assets acquired:				
Cash and cash equivalents	$ 34,474	$ 60,844	$ 24,521	$ 4,331
Interest-bearing deposits in other banks	1,796	99	1,019	
Investment securities	3,355	50,406	11,498	
Loans, net	355,167	535,975	598,739	84,499
Loans held for sale			127,449	
Premises and equipment	1,234	6,838	7,371	80
Goodwill	71,182	165,899	206,176	28,855
Core deposit and customer relationship intangible assets	2,992	17,311	9,514	2,690
Other assets	19,075	54,618	21,369	3,951
	489,275	891,990	1,007,656	124,406
Liabilities assumed:				
Non-interest bearing deposits	(92,216)	(265,369)	(167,939)	
Interest bearing deposits	(269,189)	(369,216)	(489,931)	
Accrued interest payable and other liabilities	(7,870)	(16,697)	(14,167)	(6,737)
Borrowings			(33,195)	(84,084)
Subordinated debt		(8,481)	(39,829)	
Total liabilities assumed	(369,275)	(659,763)	(745,061)	(90,821)
Total consideration paid by First Community	$ 120,000	$ 232,227	$ 262,595	$ 33,585
Deal value:				
Cash paid by First Community for either common stock, common stock options, or preferred stock of acquired company	$ 120,000	$ 30	$ 27	$ 5,897
Fair value of common stock issued		232,197	262,568	27,688
Total consideration paid by First Community	120,000	232,227	262,595	33,585
Cash paid for stock options by acquired company		10,232	6,089	1,415
Total deal value	$ 120,000	$ 242,459	$ 268,684	$ 35,000

Cedars Bank

On January 4, 2006, we acquired Cedars Bank, or Cedars, based in Los Angeles, California. We paid approximately $120.0 million in cash for all of the outstanding shares of common stock and options of Cedars. At the time of the merger, Cedars was merged into Pacific Western. We made this

acquisition to expand our presence in Los Angeles, California. In January 2006, we issued 1,891,086 shares of common stock for net proceeds of $109.5 million. We used these proceeds to augment our regulatory capital in support of the Cedars acquisition.

Foothill Independent Bancorp

On May 9, 2006, we acquired Foothill Independent Bancorp, or Foothill, based in Glendora, California. We issued approximately 3,947,000 shares of our common stock to the Foothill shareholders and caused Foothill to pay $10.2 million in cash for all outstanding options to purchase Foothill common stock. The aggregate deal value was approximately $242.5 million. At the time of the acquisition, Foothill was merged with and into the Company and Foothill's wholly-owned subsidiary, Foothill Independent Bank, was merged with and into Pacific Western. We made this acquisition to expand our presence in Los Angeles, Riverside and San Bernardino Counties of California.

Community Bancorp Inc.

On October 26, 2006, we acquired Community Bancorp Inc., or Community Bancorp, based in Escondido, California. We issued 4,677,908 shares of our common stock to the Community Bancorp shareholders and caused Community Bancorp to pay $6.1 million in cash for all outstanding options to purchase Community Bancorp common stock. At the time of the acquisition, Community Bancorp was merged with and into the Company and Community National Bank, a wholly-owned subsidiary of Community Bancorp, was merged with and into Pacific Western. We made this acquisition to expand our presence in the San Diego and Riverside Counties of California.

BFI Business Finance.

On June 25, 2007 we acquired Business Finance Capital Corporation, or BFCC, a commercial finance company based in San Jose, California, and parent company to BFI Business Finance, or BFI. We issued 494,606 shares of our common stock to the BFCC common shareholders, paid $5.9 million in cash to preferred shareholders of BFCC and caused BFCC to pay $1.4 million in cash for all outstanding options to purchase BFCC common stock. The aggregate deal value was $35.0 million. BFI is an asset-based lender that lends primarily to growing businesses throughout California and the northwestern United States. At the time of the acquisition, BFCC was merged out of existence and BFI became a subsidiary of Pacific Western. BFI will continue to operate under its current name. We made this acquisition, which we refer to as the BFI acquisition, to expand our asset-based lending business and further diversify our loan portfolio.

Merger Related Liabilities.

All of the acquisitions consummated after December 31, 2000 were completed using the purchase method of accounting. Accordingly, we recorded the estimated merger-related charges associated with each acquisition as a liability at closing when allocating the related purchase price. The merger-related liability account is included in other liabilities.

For each acquisition, we developed an integration plan for the Company that addressed, among other things, requirements for staffing, systems platforms, branch locations and other facilities. The established plans are evaluated regularly during the integration process and modified as required. Merger and integration expenses are summarized in the following primary categories: (i) severance and employee-related charges; (ii) system conversion and integration costs, including contract termination charges; (iii) asset write-downs, lease termination costs for abandoned space and other facilities-related costs; and (iv) other charges. Other charges include investment banking fees, legal fees, other professional fees relating to due diligence activities and shareholder expenses associated with preparation of securities filings, as appropriate. These costs were included in the allocation of the purchase price at the acquisition date based on our formal integration plans.

The following table presents the activity in the merger-related liability account for the nine months ended September 30, 2007:

	Severance and Employee-related	System Conversion and Integration	Asset Write-downs, Lease Terminations and Other Facilities-related	Other	Total
	(Dollars in thousands)				
Balance at December 31, 2006	$ 111	$ 135	$ 2,518	$ 1,285	$ 4,049
Additions related to acquisitions				1,074	1,074
Non-cash write-downs and other	(24)	66		(42)	
Reversals				(150)	(150)
Cash outlays	(45)	(201)	(954)	(1,836)	(3,036)
Balance at September 30, 2007	$ 42	$	$ 1,564	$ 331	$ 1,937

Unaudited Pro Forma Information for Purchase Acquisitions

The following table presents our unaudited pro forma results of operations for the quarter and nine months ended September 30, 2006 as if the Cedars, Foothill, and Community Bancorp acquisitions had been completed at the beginning of 2006. The unaudited pro forma results of operations include: (1) the historical accounts of the Company, Cedars, Foothill, and Community Bancorp; and (2) pro forma adjustments, as may be required, including the amortization of intangibles with definite lives and the amortization or accretion of any premiums or discounts arising from fair value adjustments for assets acquired and liabilities assumed. The unaudited pro forma information is intended for informational purposes only and is not necessarily indicative of our future operating results or operating results that would have occurred had these acquisitions been completed at the beginning of 2006. No assumptions have been applied to the pro forma results of operations regarding possible revenue enhancements, expense efficiencies or asset dispositions. As the BFI acquisition is immaterial, pro forma amounts related to that acquisition are not presented.

	Quarter Ended September 30, 2006	Nine Months Ended September 30, 2006
	(Dollar in thousands, except per share data)	
Revenues (net interest income plus noninterest income)	$ 81,171	$ 242,208
Net earnings	$ 25,285	$ 65,785
Net income per share:		
Basic	$ 0.88	$ 2.30
Diluted	$ 0.87	$ 2.27

NOTE 3 GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and intangible assets arise from purchase business combinations. Goodwill and other intangible assets deemed to have indefinite lives generated from purchase business combinations are not subject to amortization and are instead tested for impairment no less than annually. Our annual impairment tests of goodwill have resulted in no impact on our results of operations and financial condition.

The goodwill recorded has been assigned to our one reporting segment, banking, and none of the goodwill is deductible for income tax purposes. The following table presents the changes in goodwill for the nine months ended September 30, 2007:

	Nine Months Ended September 30, 2007
	(Dollars in thousands)
Balance as of January 1, 2007	$ 738,083
Additions	28,855
Adjustments related to 2006 acquisitions	(2,761)
Balance as of September 30, 2007	$ 764,177

Intangible assets with definite lives are amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment annually. In addition to the customer deposit and customer relationship intangibles, other assets includes other intangible assets related to the BFI acquisition totaling $1.6 million. The estimated aggregate amortization expense related to the intangible assets is expected to be $9.6 million for 2007. It is also estimated to range from $5.1 million to $9.0 million for each of the next five years and is expected to total $34.6 million over this time horizon.

The following table presents the changes in the gross amounts of core deposit and customer relationship intangibles and the related accumulated amortization for the nine months ended September 30, 2007 and 2006:

	Nine Months Ended September 30,	
	2007	**2006**
	(Dollars in thousands)	
Gross amount:		
Balance as of January 1,	$ 67,773	$ 37,956
Additions	3,032	20,302
Balance as of September 30,	70,805	58,258
Accumulated amortization:		
Balance as of January 1,	(17,346)	(10,658)
Amortization	(7,053)	(4,517)
Balance as of September 30,	(24,399)	(15,175)
Net balance as of September 30,	$ 46,406	$ 43,083

NOTE 4 INVESTMENT SECURITIES

The amortized cost, gross unrealized gains and losses and fair value of securities available-for-sale as of September 30, 2007 are as follows:

	September 30, 2007			
	Amortized cost	**Gross unrealized gains**	**Gross unrealized losses**	**Fair value**
	(Dollars in thousands)			
Government-sponsored entity securities	$ 30,070	$ 173	$ 4	$ 30,239
Municipal securities	7,457	66	20	7,503
Mortgage-backed and other securities	33,127	84	297	32,914
Total	$ 70,654	$ 323	$ 321	$ 70,656

The contractual maturity distribution based on amortized cost and fair value as of September 30, 2007, 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 issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Maturity distribution as of September 30, 2007	
	Amortized cost	Fair value
	(Dollars in thousands)	
Due in one year or less	$ 21,492	$ 21,569
Due after one year through five years	15,097	15,221
Due after five years through ten years	7,383	7,429
Due after ten years	26,682	26,437
Total	$ 70,654	$ 70,656

The following table presents the fair value and unrealized losses on securities that were temporarily impaired as of September 30, 2007:

	Impairment Period					
	Less than 12 months		12 months or longer		Total	
Descriptions of securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
Government-sponsored entity security	$	$	$ 4,837	$ 4	$ 4,837	$ 4
Municipal securities			950	20	950	20
Mortgage-backed securities	9,684	53	8,411	244	18,095	297
Total temporarily impaired securities	$ 9,684	$ 53	$ 14,198	$ 268	$ 23,882	$ 321

All individual securities that have been in a continuous unrealized loss position for 12 months or longer at September 30, 2007 were securities that have been issued by government-sponsored entities, both direct obligations and mortgage-backed, or municipalities which have a AAA credit rating as determined by various rating agencies. These securities have fluctuated in value since their purchase dates because of changes in market interest rates. We concluded that the continuous unrealized loss position for the past 12 months on our securities is a result of the level of market interest rates and not a result of the underlying issuers' ability to repay and are, therefore, temporarily impaired. In addition, we have the intent and ability to hold these securities until their fair value recovers to their cost. Accordingly, we have not recognized the temporary impairment in our consolidated statement of earnings.

NOTE 5 NET EARNINGS PER SHARE

The following is a summary of the calculation of basic and diluted net earnings per share for the quarter and nine months ended September 30, 2007 and 2006:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(In thousands, except per share data)			
Net earnings before cumulative effect of accounting change	$ 22,196	$ 21,375	$ 73,267	$ 53,087
Accounting change				142
Net earnings	$ 22,196	$ 21,375	$ 73,267	$ 53,229
Weighted average shares outstanding used for basic net earnings per share	28,899.3	24,252.3	28,884.2	22,064.3
Effect of restricted stock and dilutive stock options	88.7	155.3	117.7	225.1
Diluted weighted average shares outstanding	28,988.0	24,407.6	29,001.9	22,289.4
Basic earnings per share:				
Net earnings before accounting change	$ 0.77	$ 0.88	$ 2.54	$ 2.41
Accounting change(1)				
Basic earnings per share	$ 0.77	$ 0.88	$ 2.54	$ 2.41
Diluted earnings per share:				
Net earnings before accounting change	$ 0.77	$ 0.88	$ 2.53	$ 2.39
Accounting change(1)				
Diluted earnings per share	$ 0.77	$ 0.88	$ 2.53	$ 2.39

(1) Less than $0.01 per share for the nine months ended September 30, 2006.

In calculating the common stock equivalents for purposes of diluted earnings per share, we selected the transition method provided by FASB Staff Position FAS123(R)-3, *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards.* Diluted earnings per share do not include all potentially dilutive shares that may result from outstanding stock options and restricted stock awards that may eventually vest. The number of common shares underlying stock options and shares of restricted stock which were outstanding but not included in the calculation of diluted net earnings per share were 792,573 and 665,767 for the quarters ended September 30, 2007 and 2006 and 763,677 and 595,394 for the nine months ended September 30, 2007 and 2006.

NOTE 6 STOCK COMPENSATION

Accounting Change

We adopted SFAS No. 123 (revised 2004), *Share Based Payment* ("SFAS 123R") on January 1, 2006. SFAS 123R applies to all stock-based compensation transactions in which an entity acquires employee or director services by either issuing stock or other equity instruments, such as stock options, restricted and performance stock, and/or stock appreciation rights, or incurring liabilities that are based on an entity's stock price, and requires entities that engage in these transactions to recognize compensation expense based on the fair value of the stock or other equity instrument either issued, modified, or settled. We adopted SFAS 123R using the modified prospective approach. Under this approach, compensation expense is recognized for (1) new share-based payment awards (e.g., stock options and restricted stock), (2) awards that are modified, repurchased, or cancelled after December 31, 2005, and (3) the remaining portion of the requisite service under previously granted unvested stock awards as of December 31, 2005.

As permitted under formerly effective accounting rules, we did not consider estimated forfeitures of stock awards during the amortization period and recognized the effect of forfeitures as they occurred. As required by SFAS 123R we recognized the cumulative effect of estimated forfeitures for unvested restricted stock awards as of December 31, 2005, by increasing our first quarter 2006 earnings by $242,000. The after tax effect of this adjustment was to increase net earnings by $142,000, or less than $0.01 per diluted share. SFAS 123R also requires us to use estimated forfeitures in recognizing stock compensation expense beginning January 1, 2006, and to true-up such expense when forfeitures occur. Amortization expense for all restricted stock awards is estimated to be $8.9 million for 2007 and includes an estimate for forfeitures. As of September 30, 2007, unrecognized stock-based compensation expense was $37.6 million. When we made restricted stock awards prior to January 1, 2006, we established an unearned equity compensation contra account within our shareholders' equity equal to the market value of our common stock underlying the award on the award date. SFAS 123R required us to eliminate the unearned equity compensation account on January 1, 2006, by reclassifying it to common stock. Such reclassification had no effect on the amount of the Company's shareholders' equity.

Time-based and Performance-based Restricted Stock.

At September 30, 2007, there were outstanding 356,520 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 four years from the date of grant. The awarded shares of performance-based restricted common stock vest in full on the date the Compensation, Nominating and Governance ("CNG") Committee of the Board of Directors, as Administrator of the Company's 2003 Stock Incentive Plan (the "Plan"), determines that the Company achieved certain financial goals established by the CNG Committee and set forth in the grant documents. The 315,000 shares of unvested performance-based restricted stock awarded in 2006 expire in 2013 and are currently expected to vest in the first quarter of 2013. The 205,000 shares of unvested performance-based restricted stock awarded in 2007 expire in 2017 and are currently expected to vest in the first quarter of 2017. Performance-based restricted stock is forfeited if financial goals are not met during their term. All restricted common stock vests immediately upon a change in control of the Company as defined in the Plan. Restricted stock amortization totaled $2.2 million and $2.1 million for the quarters ended September 30, 2007 and 2006, and $6.8 million and $5.6 million for the nine months ended September 30, 2007 and 2006.

The Plan permits stock-based compensation awards to officers, directors, key employees and consultants. The Plan authorizes grants of stock-based compensation instruments to purchase or issue up to 3,500,000 shares of authorized but unissued Company common stock, subject to adjustments provided by the Plan. As of November 1, 2007, there were 655,145 shares available for grant under the Plan.

NOTE 7 BORROWINGS AND SUBORDINATED DEBENTURES

Borrowings.

At September 30, 2007, outstanding borrowings totaled $275.0 million, including $30.0 million from the Company's revolving credit line and $245.0 million of borrowings from the Federal Home Loan Bank of San Francisco (the "FHLB"); the aggregate weighted average cost of these borrowings was 4.97% at September 30, 2007. The FHLB term advances of $245.0 million had a weighted average cost of 4.85% at September 30, 2007. Of the $245.0 million outstanding, $45.0 million will mature in December 2008. The remaining $200 million is composed of two $100 million fixed-rate two year term advances, each with an option to be called by the FHLB on the first year anniversary dates of November and December 2007. If market interest rates are higher than the advances' stated rates at that time, the advances will be called by the FHLB and the Bank will be required to repay the FHLB. If market interest rates are lower at their one year anniversary dates, then the advances will not be called by the FHLB. If the advances are not called by the FHLB then they will mature in November and December 2008. We may repay the advances with a prepayment penalty at any time. If the advances are called by the FHLB, there is no prepayment penalty. Our aggregate remaining secured borrowing capacity from the FHLB was $626.6 million at September 30, 2007. Additionally, the Bank maintains unsecured lines of credit in the aggregate of $150.0 million with three correspondent banks for the purchase of overnight funds. These lines are subject to the availability of such funds.

The Company has a revolving credit line with U.S. Bank, N.A. for $70.0 million. The revolving line of credit matures on August 30, 2008 and is secured by a pledge of all of the outstanding capital stock of Pacific Western. The credit agreement requires the Company to maintain certain financial and capital ratios, among other covenants and conditions. Such covenants include minimum net worth ratios, maximum debt ratios, a minimum return on average assets, minimum and maximum credit quality ratios, and dividend payment limitations. As of September 30, 2007, we, and where applicable, Pacific Western, were in compliance with all covenants covering the credit agreement. We pay a quarterly fee of 25 basis points on the unused amounts. There was $30.0 million outstanding under the revolving credit line at September 30, 2007, at a cost of 6.00% and no amount was outstanding at December 31, 2006.

Subordinated Debentures.

The Company had an aggregate of $138.6 million of subordinated debentures outstanding at September 30, 2007. The subordinated debentures were issued in eight 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 totaled $131.0 million at September 30, 2007. These trust preferred securities are presently considered Tier 1 capital for regulatory purposes. 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 are 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. 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 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 September 30, 2007:

Series	Date issued	Amount	Maturity	Earliest Call Date without Penalty(1)	Fixed or Variable Rate	Rate Index	Current Rate(2)	Next Reset Date
				(Dollars in thousands)				
Trust CI(4)	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 F(3)	12/19/2002	8,248	12/26/2032	12/19/2007	Variable	3-month LIBOR +3.25	8.45%	12/21/2007
Trust V	8/15/2003	10,310	9/17/2033	9/17/2008	Variable	3-month LIBOR +3.10	8.79%	12/13/2007
Trust VI	9/3/2003	10,310	9/15/2033	9/15/2008	Variable	3-month LIBOR +3.05	8.74%	12/13/2007
Trust CII(4)	9/17/2003	5,155	9/17/2033	9/17/2009	Variable	3-month LIBOR +2.95	8.64%	12/13/2007
Trust VII	2/5/2004	61,856	4/23/2034	4/23/2009	Variable	3-month LIBOR +2.75	7.73%	1/28/2008
Trust CIII(4)	8/15/2005	20,619	9/15/2035	9/15/2010	Fixed(5)	N/A	5.85%	9/15/2010
Unamortized premium(6)		3,532						
Total		$ 138,588						

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

(2) As of October 26, 2007; excludes debt issuance costs.

(3) Acquired in the Foothill acquisition.

(4) Acquired in the Community Bancorp acquisition.

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

(6) Amount represents the fair value adjustment to the four trusts acquired during 2006.

As previously mentioned, the subordinated debentures were issued to trusts established by us, or entities we acquired, which in turn issued $131.0 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. Under this modification, beginning March 31, 2009, the Company will be required to use a more restrictive formula to determine the amount of trust preferred securities that can be included in regulatory Tier I capital. 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 relatio