WESTERN ALLIANCE BANCORPORATION
Form 10-Q
August 09, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

þ **Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Quarterly Period Ended June 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: 001-32550

WESTERN ALLIANCE BANCORPORATION
(Exact Name of Registrant as Specified in Its Charter)

Nevada **(State or Other Jurisdiction of Incorporation or Organization)**	**88-0365922** **(I.R.S. Employer I.D. Number)**
2700 W. Sahara Avenue, Las Vegas, NV **(Address of Principal Executive Offices)**	**89102** **(Zip Code)**
(702) 248-4200 **(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 þ 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.

Large accelerated filer o Accelerated filer þ 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 þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common Stock Issued and Outstanding: 29,983,689 shares as of July 31, 2007.

Table of Contents

Part I. Financial Information
ITEM I. FINANCIAL STATEMENTS
Western Alliance Bancorporation and Subsidiaries
Consolidated Balance Sheets
June 30, 2007 and December 31, 2006

(Unaudited) *($ in thousands, except per share amounts)*	June 30, 2007	December 31, 2006
Assets		
Cash and due from banks	$ 122,886	$ 143,721
Federal funds sold	73,033	121,159
Cash and cash equivalents	195,919	264,880
Securities held to maturity (approximate fair value $7,085 and $95,404, respectively)	6,967	97,495
Securities available for sale	421,463	444,826
Securities measured at fair value	257,147	
Gross loans, including net deferred loan fees	3,388,940	3,003,222
Less: Allowance for loan losses	(36,946)	(33,551)
Loans, net	3,351,994	2,969,671
Premises and equipment, net	130,255	99,859
Bank owned life insurance	86,185	82,058
Investment in restricted stock	17,047	18,483
Accrued interest receivable	19,577	17,425
Deferred tax assets, net	5,355	8,000
Goodwill	204,187	132,188
Other intangible assets, net of accumulated amortization of $2,014 and $1,457, respectively	33,213	16,042
Other assets	17,517	18,677
Total assets	$ 4,746,826	$ 4,169,604
Liabilities and Stockholders Equity		
Liabilities		
Non-interest bearing demand deposits	$ 1,160,492	$ 1,154,245
Interest bearing deposits:		
Demand	263,832	246,318
Savings and money market	1,684,658	1,407,916
Time, $100 and over	634,757	524,935
Other time	72,108	67,009
	3,815,847	3,400,423

Customer repurchase agreements	195,746	170,656
Federal Home Loan Bank advances and other borrowings		
One year or less	32,500	11,000
Over one year (2007 $29,670 measured at fair value)	58,326	58,011
Junior subordinated debt (2007 measured at fair value)	70,202	61,857
Subordinated debt	40,000	40,000
Accrued interest payable and other liabilities	14,754	19,078
Total liabilities	4,227,375	3,761,025
Commitments and Contingencies (Note 6)		
Stockholders Equity		
Preferred stock, par value $.0001; shares authorized 20,000,000; no shares issued and outstanding 2007 and 2006		
Common stock, par value $.0001; shares authorized 100,000,000; shares issued and outstanding 2007: 30,128,242; 2006: 27,084,626	3	3
Additional paid-in capital	383,841	287,553
Retained earnings	138,761	126,170
Accumulated other comprehensive loss	(3,154)	(5,147)
Total stockholders equity	519,451	408,579
Total liabilities and stockholders equity	$ 4,746,826	$ 4,169,604

See Notes to Unaudited Consolidated Financial Statements.

Western Alliance Bancorporation and Subsidiaries
Consolidated Statements of Income
Three and Six Months Ended June 30, 2007 and 2006

(Unaudited)	Three Months Ended June 30,		Six Months Ended June 30,	
($ in thousands, except per share amounts)	2007	2006	2007	2006
Interest income on:				
Loans, including fees	$ 67,193	$ 52,004	$ 126,213	$ 86,758
Securities taxable	8,044	6,429	14,939	12,956
Securities nontaxable	230	116	288	579
Dividends taxable	412	214	832	383
Dividends nontaxable	458		845	
Federal funds sold and other	509	619	1,042	902
Total interest income	76,846	59,382	144,159	101,578
Interest expense on:				
Deposits	25,832	15,417	47,705	25,341
Short-term borrowings	2,677	2,476	5,066	4,174
Long-term borrowings	639	808	1,155	1,421
Junior subordinated debt and subordinated debt	1,872	1,138	3,551	1,705
Total interest expense	31,020	19,839	57,477	32,641
Net interest income	45,826	39,543	86,682	68,937
Provision for loan losses	2,012	2,456	2,453	2,998
Net interest income after provision for loan losses	43,814	37,087	84,229	65,939
Other income:				
Trust and investment advisory services	2,137	1,862	4,242	3,438
Service charges	1,167	867	2,236	1,536
Income from bank owned life insurance	960	609	1,888	1,221
Other	1,755	1,144	3,242	1,784
Non-interest income, excluding securities and fair value gains (losses)	6,019	4,482	11,608	7,979
Investment securities gains, net			284	
Unrealized gain/loss on assets and liabilities measured at fair value, net	(3,766)		(3,779)	
Non-interest income	2,253	4,482	8,113	7,979
Other expense:				
Salaries and employee benefits	18,821	13,532	35,854	25,109
Occupancy	4,872	3,140	9,111	5,590

Customer service	1,897	1,963	3,220	3,212
Advertising and other business development	1,458	921	2,920	1,960
Legal, professional and director fees	1,167	777	2,211	1,422
Insurance	1,095	278	1,393	504
Merger expenses	747		747	
Audits and exams	632	520	1,163	926
Data processing	628	521	1,063	867
Intangible amortization	557	201	814	257
Supplies	510	372	1,019	657
Correspondent and wire transfer costs	457	438	875	839
Telephone	361	251	701	457
Travel and automobile	269	196	556	339
Organizational costs		428		428
Other	803	1,032	1,548	1,523
	34,274	24,570	63,195	44,090
Income before income taxes	11,793	16,999	29,147	29,828
Income tax expense	3,847	6,122	9,798	10,513
Net income	$ 7,946	$ 10,877	$ 19,349	$ 19,315
Comprehensive income	$ 5,636	$ 8,065	$ 17,533	$ 15,944
Earnings per share:				
Basic	$ 0.27	$ 0.41	$ 0.68	$ 0.79
Diluted	$ 0.25	$ 0.38	$ 0.63	$ 0.71

See Notes to Unaudited Consolidated Financial Statements.

Western Alliance Bancorporation and Subsidiaries
Consolidated Statements of Cash Flows
Six Months Ended June 30, 2007 and 2006 (Unaudited)

($ in thousands)	2007	2006
Cash Flows from Operating Activities:		
Net income	$ 19,349	$ 19,315
Adjustments to reconcile net income to net cash provided by operating activities:		
Decrease in other assets	4,309	1,193
(Decrease) in accrued interest payable and other liabilities	(9,434)	(11,418)
Provision for loan losses	2,453	2,998
Net unrealized loss on assets and liabilities measured at fair value	3,779	
Other, net	381	1,992
Net cash provided by operating activities	20,837	14,080
Cash Flows from Investing Activities:		
Proceeds from maturities of securities	44,160	107,921
Purchases of securities	(205,519)	(21,234)
Proceeds from the sale of securities	73,100	102,641
Net cash received in settlement of acquisition	46,029	3,347
Net increase in loans made to customers	(95,768)	(368,984)
Purchase of premises and equipment	(19,359)	(14,881)
Proceeds from sale of premises and equipment	3,041	
Other, net	1,625	(316)
Net cash (used in) investing activities	(152,691)	(191,506)
Cash Flows from Financing Activities:		
Net increase in deposits	13,161	137,060
Net proceeds from borrowings	47,167	48,926
Proceeds from issuance of junior subordinated debt and subordinated debt		40,000
Proceeds from exercise of stock options and stock warrants	2,565	1,362
Other, net		80
Net cash provided by financing activities	62,893	227,428
Increase (decrease) in cash and cash equivalents	(68,961)	50,002
Cash and Cash Equivalents, beginning of period	264,880	174,336
Cash and Cash Equivalents, end of period	$ 195,919	$ 224,338
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	$ 56,673	$ 30,963
Cash payments for income taxes	$ 12,410	$ 5,235
Supplemental Disclosure of Noncash Investing and Financing Activities		
Stock issued in connection with acquisition	$ 91,304	$ 104,411

Western Alliance Bancorporation and Subsidiaries
Notes to Unaudited Consolidated Financial Statements

Note 1. Nature of Business and Summary of Significant Accounting Policies
(Dollars in thousands, except per share amounts)
Nature of business
Western Alliance Bancorporation is a bank holding company providing a full range of banking services to commercial and consumer customers through its wholly owned subsidiaries Bank of Nevada and First Independent Bank of Nevada, operating in Nevada, Alliance Bank of Arizona, operating in Arizona, Torrey Pines Bank and Alta Alliance Bank, operating in California, Miller/Russell & Associates, Inc., operating in Nevada, Arizona and Southern California, and Premier Trust, Inc., operating in Nevada and Arizona. These entities are collectively referred to herein as the Company. First Independent Bank was acquired on March 30, 2007. The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America and general industry practices.
Use of estimates in the preparation of financial statements
The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for loan losses and the fair value of collateralized debt obligations.
Principles of consolidation
The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Bank of Nevada, First Independent Bank of Nevada, Alliance Bank of Arizona, Torrey Pines Bank, Alta Alliance Bank (collectively referred to herein as the Banks), Miller/Russell & Associates, Inc., and Premier Trust, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.
Interim financial information
The accompanying unaudited consolidated financial statements as of June 30, 2007 and 2006 have been prepared in condensed format, and therefore do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. These statements have been prepared on a basis that is substantially consistent with the accounting principles applied to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2006.
The information furnished in these interim statements reflects all adjustments which are, in the opinion of management, necessary for a fair statement of the results for each respective period presented. Such adjustments are of a normal recurring nature. The results of operations in the interim statements are not necessarily indicative of the results that may be expected for any other quarter or for the full year. The interim financial information should be read in conjunction with the Company s audited financial statements.

Western Alliance Bancorporation and Subsidiaries
Notes to Unaudited Consolidated Financial Statements

Condensed financial information as of December 31, 2006 has been presented next to the interim consolidated balance sheet for informational purposes.

Repurchase program

In June 2007, the Company repurchased 20,000 shares of common stock on the open market for $29.10 per share. The Company has the remaining authority to repurchase shares with an aggregate purchase price of $49.4 million under a share repurchase program authorized by the Board of Directors through December 31, 2008. All repurchased shares are retired as soon as is practicable after settlement.

Recent Accounting Pronouncements

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement 109 (FIN 48), which clarifies the accounting for uncertainty in tax positions. This Interpretation provides that the tax effects from an uncertain tax position can be recognized in our financial statements only if the position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. For further discussion of the impact of FIN 48, please refer to Note 8 of these financial statements.

In September 2006, the FASB ratified the consensus of the Emerging Issues Task Force (EITF) Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangement. EITF 06-4 applies to endorsement split dollar life insurance policies that provide a benefit to an employee that extends to postretirement periods and requires an employer to recognize a liability for future benefits over the service period based on the substantive agreement with the employee. EITF 06-4 is effective for fiscal years beginning after December 15, 2007, with early adoption permitted. We do not expect EITF 06-4 to have a material impact on our financial statements.

Derivative Financial Instruments

All derivatives are recognized on the balance sheet at their value. On the date the derivative contract is entered into, the Company may designate the derivative as a hedge of the variability of cash flows to be received or paid related to a recognized asset or liability cash flow hedge. Changes in the fair value of a derivative that is highly effective as and that is designated and qualifies as a cash-flow hedge are recorded in other comprehensive income, until earnings are affected by the variability of cash flows (e.g., when periodic settlements on a variable-rate asset or liability are recorded in earnings).

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedged transactions. This process includes linking all derivatives that are designated as cash-flow hedges to specific assets and liabilities on the balance sheet or forecasted transactions. The Company also formally assesses, both at the hedge s inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Company discontinues hedge accounting prospectively, as discussed below.

The Company discontinues hedge accounting prospectively when (1) it is determined that the derivative is no longer effective in offsetting changes in the cash flows of a hedged item (including forecasted

Western Alliance Bancorporation and Subsidiaries
Notes to Unaudited Consolidated Financial Statements

transactions); (2) the derivative expires or is sold, terminated, or exercised; (3) the derivative is dedesignated as a hedge instrument, because it is unlikely that a forecasted transaction will occur; or (4) management determines that designation of the derivative as a hedge instrument is no longer appropriate.

When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur, the derivative will continue to be carried on the balance sheet at its fair value, and gains and losses that were accumulated in other comprehensive income will be recognized immediately in earnings. In all other situations in which hedge accounting is discontinued, the derivative will be carried at its fair value on the balance sheet, with subsequent changes in its fair value recognized in current-period earnings.

Note 2. Fair Value Accounting

The Company elected early adoption of SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities,* effective January 1, 2007. Instruments for which the fair value option (FVO) was adopted and the reasons therefore are as follows:

- Junior subordinated debt
- All investment securities previously classified as held-to-maturity, with the exception of tax-advantaged municipal bonds
- All fixed-rate securities previously classified as available-for-sale

The junior subordinated debt, with a balance of $61.9 million at January 1, 2007, (before the application of SFAS 159) is a primary source of funding for the Company s held-to-maturity portfolio, which excluding tax-advantaged municipal obligations had an amortized cost of $90.5 million at the same date. The held-to-maturity portfolio consists primarily of fixed rate and hybrid adjustable rate mortgage-backed securities and collateralized mortgage obligations. The junior subordinated debt includes $20.0 million which carries a fixed rate through June 2011, with the remaining balances carrying rates which re-set at least semi-annually. This represents a natural hedge on the Company s balance sheet, with changes in fair value of the fixed rate securities and fixed rate junior subordinated debt moving inversely from one another as market rates move up and down. The early adoption of SFAS 159 on these instruments will more accurately reflect this hedge in the Company s consolidated financial statements. The FVO was not elected for tax-advantaged securities since the tax benefit is based upon the contractual rate paid on the security at time of purchase and does not include changes in fair value or accretion or amortization of discounts or premiums resulting from revaluation. The carrying value of these tax-advantaged securities was $7.0 million at June 30, 2007.

Fixed-rate available-for-sale securities had an amortized cost of $215.6 million and an aggregate net unrealized loss of $5.9 million at January 1, 2007. These securities represent some of the most volatile on the Company s balance sheet with long durations and low coupon rates relative to the market. While initially these investments were funded with relatively long duration non-interest bearing and administered rate money market deposits, as the liability structure of the company has shortened they are now preponderantly funded with overnight Federal Home Loan Bank borrowings, customer repurchase agreements and CDs. All of these sources of funding have pricing which moves with the market, and thus there is not an effective match for the fixed rate securities on the liability side of the balance sheet. This causes volatility in reported earnings as interest rates move and the net interest margin contracts and expands. The Company s ability to hedge the market-value risk on the securities was historically limited by the complexities of accounting for derivative financial instruments. The adoption of SFAS 159 on these securities provides more transparency in the consolidated financial statements as users will be more able to ascertain changes in the Company s net income caused by changes in market interest rates. The

Western Alliance Bancorporation and Subsidiaries
Notes to Unaudited Consolidated Financial Statements

FVO was not elected for variable-rate available-for-sale securities since the liability funding match is more closely aligned with these shorter duration assets.
The following table provides the impact of adoption on the Company s balance sheet as January 1, 2007 (in thousands):

Description	**Carrying Value Prior to Adoption**	**Cumulative Effect Adjustment**	**Carrying Value After Adoption**
Securities previously reported as held to maturity	$ 97,495	$ (2,267)	$ 95,228
Securities previously reported as available for sale	444,826	(5,861)	444,826
Junior subordinated debt	(61,857)	(2,270)	(64,127)
Gross cumulative effect adjustment		(10,398)	
Less reclassification from other comprehensive income		5,861	
Pre-tax cumulative effect adjustment		(4,537)	
Effect on net deferred tax asset		1,588	
Cumulative effect adjustment, net		$ (2,949)	

All securities for which the fair value measurement option has been elected are included in a separate line item on the balance sheet entitled securities measured at fair value.
For the three and six months ended June 30, 2007, gains and losses from fair value changes included in the Consolidated Statement of Income were as follows (in thousands):

	Changes in Fair Values for the Three and Six Month Periods Ended June 30, 2007 for Items Measured at Fair Value Pursuant to Election of the Fair Value Option			
Description	Unrealized Gain/Loss on Assets and Liabilities Measured at Fair Value, Net	Interest Income on Securities	Interest Expense on Junior Subordinated Debt and Borrowings	Total Changes in Fair Values Included in Current-Period Earnings
(Three months ended June 30,2007)				
Securities measured at fair value	$ (4,097)	$ 478	$	$ (3,619)
Junior subordinated debt			183	183
Fixed-rate term borrowings	331			331

(Six months ended June 30, 2007)				
Securities measured at fair value	$ (4,110)	$ 954	$	$ (3,156)
Junior subordinated debt			384	384
Fixed-rate term borrowings	331			331

Western Alliance Bancorporation and Subsidiaries
Notes to Unaudited Consolidated Financial Statements

The difference between the aggregate fair value of $70.2 million and the aggregate unpaid principal balance of $69.1 million of junior subordinated debt was $1.1 million at June 30, 2007.

Interest income on securities measured at fair value are accounted for similarly to those classified as available for sale and held to maturity. As of January 1, 2007, a discount or premium was calculated for each security based upon the difference between the par value and the fair value at that date. These premiums and discounts will generally be recognized in interest income over the term of the securities. For mortgage-backed securities, estimates of prepayments are considered in the constant yield calculations. Interest expense on junior subordinated debt is also determined under a constant yield calculation. As of January 1, 2007, a premium was recorded for certain junior subordinated debt offerings. These premiums are being amortized over the expected lives of the offerings.

During the three months ended June 30, 2007, the Company elected the FVO for two newly acquired financial instruments. These financial instruments and the reasons for the election are as follows:

Collateralized debt obligation

Fixed-rate term advance from the Federal Home Loan Bank

The collateralized debt obligation s fair value is influenced by the perceived credit risk of the underlying collateral. The election of the FVO will allow the Company to better reflect the potential market value volatility of this instrument in its consolidated financial statements.

The fixed-rate term advance from the Federal Home Loan Bank, with a par value of $30.0 million, has an interest rate of 4.91% and is due in May 2010. The Company secured this advance primarily as a means of hedging a portion of the market value risk inherent in our securities measured at fair value portfolio.

Concurrent with the adoption of SFAS 159, the Company adopted SFAS 157, *Fair Value Measurements*, effective January 1, 2007. SFAS 159 requires early adoption of SFAS 157 if the company chooses to early adopt SFAS 159. SFAS 157 provides a definition of fair value and provides a framework for calculating fair value.

The Company measures certain assets and liabilities at fair value on a recurring basis, including securities available for sale, securities measured at market value and junior subordinated debt. The fair value of these assets and liabilities were determined using the following inputs at June 30, 2007:

Western Alliance Bancorporation and Subsidiaries
Notes to Unaudited Consolidated Financial Statements

		Fair Value Measurements at Reporting Date Using:		
Description	**June 30, 2007**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Securities available for sale	$ 421,463	$	$ 421,463	$
Securities measured at fair value	257,147		252,647	4,500
Total	$ 678,610	$	$ 674,110	$ 4,500
Liabilities:				
Fixed-rate term borrowings	$ 29,670	$	$ 29,670	$
Junior subordinated debt	70,202		70,202	