WESTAMERICA BANCORPORATION
Form 10-Q
October 30, 2009

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

(Mark One)

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

For the quarterly period ended September 30, 2009

or

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

For the transition period from _____ to _____.

Commission file number: 001-9383

WESTAMERICA BANCORPORATION

(Exact Name of Registrant as Specified in Its Charter)

CALIFORNIA	**94-2156203**
(State or Other Jurisdiction of Incorporation or Organization)	(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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See 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 þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
(Do not check if a 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 o No þ

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 26, 2009
Common Stock, No Par Value	29,206,991

TABLE OF CONTENTS

	Page
Forward Looking Statements	3
PART I FINANCIAL INFORMATION	
Item 1 Financial Statements	4
Notes to Unaudited Condensed Consolidated Financial Statements	8
Financial Summary	24
Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations	25
Item 3 Quantitative and Qualitative Disclosures about Market Risk	49
Item 4 Controls and Procedures	49
PART II OTHER INFORMATION	
Item 1 Legal Proceedings	49
Item 1A Risk Factors	49
Item 2 Unregistered Sales of Equity Securities and Use of Proceeds	50
Item 3 Defaults upon Senior Securities	51
Item 4 Submission of Matters to a Vote of Security Holders	51
Item 5 Other Information	51
Item 6 Exhibits	51
Signatures	52
Exhibit Index	53

Exhibit 31.1 - Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a)
Exhibit 31.2 - Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a)
Exhibit 32.1 - Certification of Chief Executive Officer Required by 18 U.S.C. Section 1350
Exhibit 32.2 - Certification of Chief Financial Officer Required by 18 U.S.C. Section 1350

Table of Contents

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 , pr continue , remain , will , should , may and other similar expressions are intended to identify forward-looking stat 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 difficulties in the national and California economies and the effects of federal and state government efforts to address those difficulties; (2) continued low 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 including the recent acquisition of County Bank assets and assumption of County Bank liabilities from the Federal Deposit Insurance Corporation; (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) significantly increasing competitive pressure in the banking industry; (9) operational risks including data processing system failures or fraud; (10) volatility of rate sensitive loans, deposits and investments; (11) asset/liability management risks and liquidity risks; and (12) changes in the securities markets. The Company undertakes no obligation to update any forward-looking statements in this report. The reader is directed to the Company s annual report on Form 10-K for the year ended December 31, 2008, 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.

Table of Contents

PART I FINANCIAL INFORMATION
Item 1 Financial Statements

WESTAMERICA BANCORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands)
(unaudited)

	At September 30, **2009**	At December 31, **2008**
Assets:		
Cash and cash equivalents	$ 180,058	$ 138,883
Money market assets	463	341
Investment securities available for sale	391,644	288,454
Investment securities held to maturity, with market values of:		
$800,893 at September 30, 2009	780,846	
$950,210 at December 31, 2008		949,325
Non-covered loans	2,267,130	2,382,426
Allowance for loan losses	(42,683)	(44,470)
Non-covered loans, net of allowance for loan losses	2,224,447	2,337,956
Covered loans	932,656	
Total loans	3,157,103	2,337,956
Non-covered other real estate owned	4,319	3,505
Covered other real estate owned	18,740	
Premises and equipment, net	38,982	27,351
Identifiable intangibles	38,264	15,208
Goodwill	121,699	121,699
Interest receivable and other assets	239,041	150,212
Total Assets	$ 4,971,159	$ 4,032,934
Liabilities:		
Deposits:		
Noninterest bearing	$ 1,377,215	$ 1,158,632
Interest bearing:		
Transaction	660,001	525,153
Savings	962,823	745,496
Time	1,024,587	665,773
Total deposits	4,024,626	3,095,054
Short-term borrowed funds	222,030	457,275
Federal Home Loan Bank advances	85,904	
Debt financing and notes payable	26,531	26,631
Liability for interest, taxes and other expenses	76,350	44,122

Total Liabilities		4,435,441		3,623,082
Shareholders Equity:				
Preferred stock, authorized - 1,000 shares Issued and outstanding:				
42 at September 30, 2009		41,335		
Common stock, authorized - 150,000 shares Issued and outstanding:				
29,207 at September 30, 2009		365,547		
28,880 at December 31, 2008				352,265
Deferred compensation		2,485		2,409
Accumulated other comprehensive income		6,053		1,040
Retained earnings		120,298		54,138
Total Shareholders Equity		535,718		409,852
Total Liabilities and Shareholders Equity	$	4,971,159	$	4,032,934

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2009	**2008**	**2009**	**2008**
	(In thousands, except per share data)			
Interest Income:				
Loans	$ 48,530	$ 36,710	$ 143,148	$ 112,716
Money market assets and funds sold	1	1	3	3
Investment securities available for sale				
Taxable	2,352	1,858	6,775	7,281
Tax-exempt	1,920	2,183	5,775	7,503
Investment securities held to maturity				
Taxable	3,025	4,671	11,384	14,682
Tax-exempt	5,368	5,552	16,368	16,839
Total Interest Income	61,196	50,975	183,453	159,024
Interest Expense:				
Transaction deposits	263	346	761	1,145
Savings deposits	915	1,048	2,874	3,482
Time deposits	2,095	3,566	7,890	12,984
Short-term borrowed funds	509	1,954	1,572	9,360
Federal Home Loan Bank advances	295		714	
Notes payable	423	524	1,267	1,680
Total Interest Expense	4,500	7,438	15,078	28,651
Net Interest Income	56,696	43,537	168,375	130,373
Provision for Loan Losses	2,800	600	7,200	1,800
Net Interest Income After Provision For Loan Losses	53,896	42,937	161,175	128,573
Noninterest Income:				
Service charges on deposit accounts	9,479	7,555	27,017	22,379
Merchant credit card	2,163	2,611	6,818	7,903
Debit card	1,267	970	3,656	2,852
ATM fees and interchange	965	756	2,792	2,238
Trust fees	319	293	1,056	973
Financial services commissions	129	186	420	689
Other	1,639	1,336	5,712	4,689
FAS 141R gain			48,844	
Securities impairment		(41,206)		(59,384)
Gain on sale of Visa common stock				5,698
Total Noninterest Income (Loss)	15,961	(27,499)	96,315	(11,963)

Noninterest Expense:				
Salaries and related benefits	16,402	12,621	50,221	38,670
Occupancy	4,008	3,465	14,831	10,297
Outsourced data processing services	2,258	2,098	6,740	6,323
Amortization of identifiable intangibles	1,671	788	5,051	2,433
Furniture and equipment	1,789	903	4,618	2,825
Courier service	989	835	2,881	2,488
Professional fees	913	485	2,580	1,704
FDIC insurance assessments	1,442	131	4,820	359
Other	5,679	3,877	16,198	11,835
Visa litigation expense				(2,338)
Total Noninterest Expense	35,151	25,203	107,940	74,596
Income (Loss) Before Income Taxes	34,706	(9,765)	149,550	42,014
Income Tax Provision (Benefit)	9,449	(9,809)	48,285	2,989
Net Income	25,257	44	101,265	39,025
Preferred stock dividends and discount accretion	1,466		3,151	
Net Income Applicable to Common Equity	$ 23,791	$ 44	$ 98,114	$ 39,025
Average Common Shares Outstanding	29,210	28,908	29,072	28,895
Diluted Average Common Shares Outstanding	29,429	29,273	29,313	29,292
Per Common Share Data:				
Basic earnings	$ 0.81	$ 0.00	$ 3.37	$ 1.35
Diluted earnings	0.81	0.00	3.35	1.33
Dividends paid	0.35	0.35	1.06	1.04

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME
(unaudited)

	Common Shares Outstanding	Preferred Stock	Common Stock	Deferred Compensation	Accumulated Comprehensive (Loss) Income	Retained Earnings	Total
				(In thousands)			
Balance, December 31, 2007	29,018		$ 334,211	$ 2,990	$ (4,520)	$ 61,922	$ 394,603
Comprehensive income							
Net income for the period						39,025	39,025
Other comprehensive income, net of tax:							
Increase in net unrealized gains on securities available for sale					5,044		5,044
Post-retirement benefit transition obligation amortization					27		27
Total comprehensive income							44,096
Exercise of stock options	566		22,815				22,815
Stock option tax benefits			1,130				1,130
Restricted stock activity	11		1,261	(581)			680
Stock based compensation			893				893
Stock awarded to employees	3		157				157
Purchase and retirement of stock	(703)		(8,339)			(26,779)	(35,118)
Dividends						(30,128)	(30,128)
Balance, September 30, 2008	28,895		$ 352,128	$ 2,409	$ 551	$ 44,040	$ 399,128
Balance, December 31, 2008	28,880		$ 352,265	$ 2,409	$ 1,040	$ 54,138	$ 409,852
Comprehensive income							
Net income for the period						101,265	101,265
Other comprehensive income, net of tax:							
Increase in net unrealized gains on securities available for sale					4,986		4,986

Post-retirement benefit transition obligation amortization					27		27
Total comprehensive income							106,278
Issuance of preferred stock and related warrants		82,519	1,207				83,726
Redemption of preferred stock		(41,863)					(41,863)
Preferred stock dividends and discount accretion		679				(3,151)	(2,472)
Exercise of stock options	350		9,094				9,094
Stock option tax benefits			2,179				2,179
Restricted stock activity	7		251	76			327
Stock based compensation			847				847
Stock awarded to employees	2		78				78
Purchase and retirement of stock	(32)		(374)			(1,116)	(1,490)
Dividends						(30,838)	(30,838)
Balance, September 30, 2009	29,207	$ 41,335	$ 365,547	$ 2,485	$ 6,053	$ 120,298	$ 535,718

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	For the nine months ended September 30,	
	2009	**2008**
	(In thousands)	
Operating Activities:		
Net income	$ 101,265	$ 39,025
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,117	7,130
Loan loss provision	7,200	1,800
Net amortization of deferred loan cost (fees)	358	(72)
(Increase) decrease in interest income receivable	(3,637)	2,036
FAS 141R gain	(48,844)	
Decrease (increase) in other assets	48,191	(20,405)
Increase (decrease) in income taxes payable	3,811	(4,089)
Decrease in interest expense payable	(317)	(2,469)
Increase (decrease) in other liabilities	26,398	(13,373)
Stock option compensation expense	847	893
Stock option tax benefits	(2,179)	(1,130)
Impairment of investment securities		59,384
Gain on sale of Visa common stock		(5,698)
Writedown of property and equipment	37	9
Originations of loans for resale	(68)	(1,269)
Net proceeds from sale of loans originated for resale	70	1,283
Net gain on sale of property acquired in satisfaction of debt	(135)	
Writedown of property acquired in satisfaction of debt	83	195
Net Cash Provided by Operating Activities	134,197	63,250
Investing Activities:		
Net repayments of loans	330,616	89,415
Proceeds from FDIC loss-sharing indemnification	43,696	
Purchases of investment securities available for sale		(6,430)
Purchases of investment securities held to maturity	(522)	
Proceeds from maturity/calls of securities available for sale	76,185	183,616
Proceeds from sale of securities available for sale		480
Proceeds from maturity/calls of securities held to maturity	172,002	82,666
Purchases of FRB/FHLB* securities		(120)
Proceeds from sale of FRB/FHLB* stock	1,502	11,364
Proceeds from sale of Visa common stock		5,698
Proceeds from sale of property acquired in satisfaction of debt	10,009	311
Purchases of property, plant and equipment	(14,146)	(638)
Net cash acquired from acquisitions	44,397	

Net Cash Provided by Investing Activities	663,739	366,362
Financing Activities:		
Net decrease in deposits	(298,770)	(135,002)
Net decrease in short-term borrowings	(476,483)	(310,626)
Repayments of notes payable and debt financing	(101)	(10,109)
Exercise of stock options	9,094	22,815
Proceeds from issuance of preferred stock	83,726	
Redemption of preferred stock	(41,863)	
Stock option tax benefits	2,179	1,130
Repurchases/retirement of stock	(1,490)	(35,118)
Dividends paid	(30,838)	(30,128)
Preferred dividends	(2,215)	
Net Cash Used in Financing Activities	(756,761)	(497,038)
Net Increase (Decrease) In Cash and Cash Equivalents	41,175	(67,426)
Cash and Cash Equivalents at Beginning of Period	138,883	209,764
Cash and Cash Equivalents at End of Period	$ 180,058	$ 142,338
Supplemental Cash Flow Disclosures:		
Loan collateral transferred to other real estate owned	$ 23,804	$ 706
Unrealized gain on securities available for sale, net	4,986	5,044
Interest paid for the period	21,719	31,120
Income tax payments for the period	27,553	24,056
Acquisitions:		
Assets acquired	$ 1,624,464	
Liabilities assumed	1,575,620	
Net	48,844	

See accompanying notes to unaudited condensed consolidated financial statements.

* Federal Reserve Bank/Federal Home Loan Bank (FRB/FHLB)

NOTES TO UNAUDITED CONDENSED 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 nine months ended September 30, 2009 and 2008 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, 2008.

Note 2: Accounting Policies.

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, which is 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, 2008.

As described in Note 3 below, Westamerica Bank (Bank) acquired assets and assumed liabilities of the former County Bank on February 6, 2009 from the Federal Deposit Insurance Corporation (FDIC). The acquired assets and assumed liabilities of County Bank were measured at estimated fair values, as required by the acquisition method of accounting for business combinations (Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 805, Business Combinations, formerly FASB Statement No. 141 (revised 2007)). Management made significant estimates and exercised significant judgment in accounting for the acquisition of County Bank. Management judgmentally assigned risk ratings to loans. The assigned risk ratings, appraised collateral values, expected cash flows, and current interest rates, and statistically derived loss factors were used to measure fair values for loans. Repossessed loan collateral was primarily valued based upon appraised collateral values. Due to the loss sharing agreements with the FDIC, the Bank recorded a receivable from the FDIC equal to 80 percent of the loss estimates embedded in the fair values of loans and repossessed loan collateral. The Bank also recorded an identifiable intangible asset representing the value of the core deposit customer base of County Bank based on an appraisal performed by an independent third party. In determining the value of the identifiable intangible asset, the third-party appraiser used significant estimates including average lives of depository accounts, future interest rate levels, the cost of servicing various depository products, and other significant estimates. Management used quoted market prices to determine the fair value of investment securities, FHLB advances and other borrowings.

Newly Adopted Accounting Policies

Purchased loans. Purchased loans acquired in a business combination, which include loans purchased in the County Bank acquisition, are recorded at estimated fair value on their purchase date but the purchaser cannot carryover the related allowance for loan losses. Purchased loans are accounted for under FASB ASC 310-30, Loans and Debt Securities with Deteriorated Credit Quality (formerly American Institute of Certified Public Accountants (AICPA) Statement of Position 03-3), when the loans have evidence of credit deterioration since origination and it is probable at the date of acquisition that the Company will not collect all contractually required principal and interest payments. Evidence of credit quality deterioration as of the purchase date may include statistics such as past due and nonaccural status. Generally, acquired loans that meet the Company s definition for nonaccrual status fall within the scope of FASB ASC 310-30. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the nonaccretable difference which is included in the carrying amount of the loans. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses. Subsequent increases in cash flows result in a reversal of the provision for loan losses to the extent of prior charges, or a reclassification of the difference from nonaccretable to accretable with a positive impact on interest income. Further, any excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized into interest income over the remaining life of the loan when there is a reasonable

expectation about the amount and timing of such cash flows.

Covered loans. Loans covered under loss sharing or similar credit protection agreements with the FDIC are reported in loans exclusive of the expected reimbursement cash flows from the FDIC. Covered loans are initially recorded at fair value at the acquisition date. Subsequent decreases in the amount expected to be collected results in a provision for loan losses and a corresponding increase in the estimated FDIC reimbursement, with the estimated net loss impacting earnings. Interest is accrued daily on the outstanding principal balances. Covered loans which are more than 90 days delinquent with respect to interest or principal, unless they are well secured and in the process of collection, and other covered loans on which full recovery of principal or interest is in doubt, are placed on nonaccrual status. Interest previously accrued on covered loans placed on nonaccrual status is charged against interest income, net of estimated FDIC reimbursements of such accrued interest. In addition, some covered loans secured by real estate with temporarily impaired values and covered commercial loans to borrowers experiencing financial difficulties are placed on nonaccrual status even though the borrowers continue to repay the loans as scheduled (covered performing nonaccrual loans). When the ability to fully collect nonaccrual loan principal is in doubt, payments received are applied against the principal balance of the loans until such time as full collection of the remaining recorded balance is expected. Any additional interest payments received after that time are recorded as interest income on a cash basis. Covered performing nonaccrual loans are reinstated to accrual status when improvements in credit quality eliminate the doubt as to the full collectibility of both interest and principal.

Covered Other Real Estate Owned. Other real estate owned covered under loss sharing agreements with the FDIC is reported exclusive of expected reimbursement cash flows from the FDIC. Upon transferring covered loan collateral to covered other real estate owned status, acquisition date fair value discounts on the related loan is also transferred to covered other real estate owned. Fair value adjustments on covered other real estate owned result in a reduction of the covered other real estate carrying amount and a corresponding increase in the estimated FDIC reimbursement, with the estimated net loss charged against earnings.

Recently Adopted Accounting Pronouncements

In first quarter 2009, the Company adopted the following new accounting pronouncements:

FASB ASC 805, *Business Combinations* (formerly FAS 141R (revised 2007), *Business Combinations*);

FASB ASC 815-10, *Derivatives and Hedging* (formerly FAS 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133*); and

FASB ASC 820-10-55-23B, *Fair Value Measurements and Disclosures- Overall Implementation Guidance* (formerly, FASB Staff Position (FSP) FAS 157-2, *Effective Date of FASB Statement No. 15*).

In the second quarter 2009, the Company adopted the following new accounting pronouncements:

FASB ASC 320-10-65-1, *Investments Debt and Equity Securities Guidance related to Recognition and Presentation of Other-Than-Temporary Impairments* (formerly FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*);

FASB ASC 820-10-65-4, *Fair Value Measurements and Disclosures- Overall Transition Guidance related to Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (formerly FASB Staff Position (FSP) FAS 157-4 *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*);

FASB ASC 825-10-65-1, *Financial Instruments Overall Transition Guidance related to Interim Disclosures about Fair Value of Financial Instruments* (formerly FSP FAS 107-1 and APB Opinion 28-1, *Interim Disclosures about Fair Value of Financial Instruments*); and

FASB ASC 855, *Subsequent Events* (formerly FAS 165, *Subsequent Events*).

FASB ASC 805, *Business Combinations*, requires an acquirer in a business combination to recognize the assets acquired (including loan receivables), the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, at their fair values as of that date, with limited exceptions. The acquirer is not permitted to recognize a separate valuation allowance as of the acquisition date for loans and other assets acquired in a business combination. The revised statement requires acquisition-related costs to be expensed separately from the acquisition. It also requires restructuring costs that the acquirer expected but was not obligated to incur, to be expensed separately from the business combination. The Company applied these revised provisions in accounting for the acquisition of County

Bank.

FASB ASC 815-10, *Derivatives and Hedging,* changes the disclosure requirements for derivative instruments and hedging activities. It requires enhanced disclosures about how and why an entity uses derivatives, how derivatives and related hedged items are accounted for, and how derivatives and hedged items affect an entity s financial position, performance and cash flows. The Company had no derivative instruments designated as hedges as of September 30, 2009.

FASB ASC 820-10-55-23B, *Fair Value Measurements and Disclosures- Overall Implementation Guidance*, relates to the requirements that pertain to nonfinancial assets and nonfinancial liabilities covered by accounting guidance for Fair Value Measurements. The adoption of this guidance did not have any effect on the Company s financial statements at the date of adoption.

FASB ASC 320-10-65-1, *Investments Debt and Equity Securities Guidance related to Recognition and Presentation of Other-Than-Temporary Impairments* states that an other-than-temporary impairment (OTTI) write-down of debt securities, where fair value is below amortized cost, is triggered in circumstances where (1) an entity has the intent to sell a security, (2) it is more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis, or (3) the entity does not expect to recover the entire amortized cost basis of the security. If an entity intends to sell a security or if it is more likely than not the entity will be required to sell the security before recovery, an OTTI write-down is recognized in earnings equal to the entire difference between the security s amortized cost basis and its fair value. If an entity does not intend to sell the security or it is more likely than not that it will not be required to sell the security before recovery, the OTTI write-down is separated into an amount representing the credit loss, which is recognized in earnings, and the amount related to all other factors, which is recognized in other comprehensive income. The adoption of these provisions did not have any effect on the Company s financial statements at the date of adoption.

FASB ASC 820-10-65-4, *Fair Value Measurements and Disclosures- Overall Transition Guidance related to Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly,* addresses measuring fair value in situations where markets are inactive and transactions are not orderly. In these circumstances quoted prices may not be determinative of fair value. Even if there has been a significant decrease in the volume and level of activity for an asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement has not changed. Under these provisions price quotes for assets or liabilities in inactive markets may require adjustment due to uncertainty as to whether the underlying transactions are orderly. The adoption of these provisions did not have any effect on the Company s financial statements at the date of adoption.

FASB ASC 825-10-65-1, *Financial Instruments Overall Transition Guidance related to Interim Disclosures about Fair Value of Financial Instruments*, states that entities must disclose the fair value of financial instruments in interim reporting periods as well as in annual financial statements. The methods and assumptions used to estimate fair value as well as any changes in methods and assumptions that occurred during the reporting period must also be disclosed. The adoption of these provisions did not have any effect on the Company s financial statements at the date of adoption.

FASB ASC 855, *Subsequent Events,* establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The accounting guidance defines: (1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and (3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. Management has reviewed events occurring through October 30, 2009, the date the financial statements were issued and no subsequent events occurred requiring accrual or disclosure.

Recently Issued Accounting Pronouncements

FASB Update 2009-05, *Measuring Liabilities at Fair Value.*

This Update provides amendments to Subtopic 820-10, Fair Value Measurements and Disclosures Overall, for the fair value measurement of liabilities.

This Update clarifies:

In circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value by using one or more following: a) the quoted price for the identical liability when traded as an asset; b) the quoted prices for similar liabilities or similar liabilities when traded as assets; c) the income approach, such as present value technique; and/or d) the market

approach, such as a technique that is based on the amount at the measurement date that the reporting entity would pay to transfer the identical liability or would receive to enter into the identical liability.
When estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability.
Both a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements.

This Update is effective for the Company s December 31, 2009 year-end reporting period. The Company does not report liabilities at fair value on a recurring basis. Management does not expect the adoption of the Update to have a material effect on the Company s financial statements at the date of adoption.

In June 2009, the FASB issued FASB Statement No. 166 (FAS 166), Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140 and FASB Statement No. 167 (FAS 167), Amendments to FASB Interpretation No. 46(R).

FAS 166 was issued to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor s continuing involvement, if any, in transferred financial assets. Specifically to address: (1) practices that have developed since the issuance of FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,* that are not consistent with the original intent and key requirements of that Statement and (2) concerns of financial statement users that many of the financial assets (and related obligations) that have been derecognized should continue to be reported in the financial statements of transferors. This Statement must be applied to transfers occurring on or after the effective date. Additionally, on and after the effective date, the concept of a qualifying special-purpose entity is no longer relevant for accounting purposes.

FAS 167 was issued to improve financial reporting by enterprises involved with variable interest entities. Specifically to address: (1) the effects on certain provisions of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities,* as a result of the elimination of the qualifying special-purpose entity concept in FASB Statement No. 166, *Accounting for Transfers of Financial Assets,* and (2) constituent concerns about the application of certain key provisions of Interpretation 46(R), including those in which the accounting and disclosures under the Interpretation do not always provide timely and useful information about an enterprise s involvement in a variable interest entity.

Both Statements must be applied as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter with early application prohibited. Management does not expect the adoption of these Statements to have a material effect on the Company s financial statement at the date of adoption, January 1, 2010.

Note 3: Federally Assisted Acquisition of County Bank

On February 6, 2009, Westamerica Bancorporation s bank subsidiary, Westamerica Bank (Bank), purchased substantially all the assets and assumed substantially all the liabilities of County Bank from the Federal Deposit Insurance Corporation (FDIC), as Receiver of County Bank. County Bank operated 39 commercial banking branches primarily within California s central valley region between Sacramento and Fresno. The FDIC took County Bank under receivership upon County Bank s closure by the California Department of Financial Institutions at the close of business February 6, 2009. Westamerica Bank submitted a bid for the acquisition of County Bank with the FDIC on February 3, 2009. The FDIC approved Westamerica Bank s bid upon reviewing three competing bids and determining Westamerica Bank s bid would be the least costly to the Deposit Insurance Fund. Westamerica Bank s bid included the purchase of substantially all County Bank assets at a cost of assuming all County Bank deposits and certain other liabilities. No cash or other consideration was paid by Westamerica Bank. Further, Westamerica Bank and the FDIC entered loss sharing agreements regarding future losses incurred on loans and foreclosed loan collateral existing at February 6, 2009. Under the terms of the loss sharing agreements, the FDIC will absorb 80 percent of losses and share in 80 percent of loss recoveries on the first $269 million of losses, and absorb 95 percent of losses and share in 95 percent of loss recoveries on losses exceeding $269 million. The term for loss sharing on residential real estate loans is ten years, while the term for loss sharing on non-residential real estate loans is five years in respect to losses and eight years in respect to loss recoveries. As a result of the loss sharing agreements with the FDIC, the Company recorded a receivable of $129 million at the time of acquisition.

Table of Contents

The County Bank acquisition was accounted for under the acquisition method of accounting in accordance with FASB ASC 805, Business Combinations. The statement of net assets acquired as of February 6, 2009 and the resulting bargain purchase gain are presented in the following table. The purchased assets and assumed liabilities were recorded at their respective acquisition date fair values, and identifiable intangible assets were recorded at fair value. Fair values are preliminary and subject to refinement for up to one year after the closing date of a merger as information relative to closing date fair values becomes available. A bargain purchase gain totaling $48.8 million resulted from the acquisition and is included as a component of noninterest income on the statement of income. The amount of the gain is equal to the amount by which the fair value of assets purchased exceeded the fair value of liabilities assumed. The acquisition resulted in a gain due to County Bank s impaired capital condition at the time of the acquisition. The operations of County Bank provided revenue of $46.0 million and net income of $7.7 million for the period of February 6, 2009 to September 30, 2009, and is included in the consolidated financial statements. County Bank s results of operations prior to the acquisition are not included in Westamerica s statement of income.

Statement of Net Assets Acquired (at fair value)

	At February 6, 2009 (In thousands)	
Assets		
Cash and cash equivalents	$	44,668
Federal funds sold		12,760
Securities		173,839
Loans		1,174,353
Core deposit intangible		28,107
Other real estate owned		9,332
Other assets		181,405
Total Assets	$	1,624,464
Liabilities		
Deposits		1,234,123
Federal funds purchased and securities sold under repurchase agreements		153,169
Other borrowed funds		187,252
Liabilities for interest and other expenses		1,076
Total Liabilities		1,575,620
Net assets acquired	$	48,844
County Bank tangible stockholder s equity	$	58,623
Adjustments to reflect assets acquired and liabilities assumed at fair value:		
Loans and leases, net		(150,326)
Other real estate owned		(5,470)
FDIC loss-sharing receivable (included in other assets)		128,962
Core deposit intangible		28,107
Deposits		(10,823)
Securities sold under repurchase agreements		(2,061)

Other borrowed funds		1,832
FAS 141R Gain	$	48,844

The pro forma consolidated condensed statements of income for Westamerica Bancorporation and County Bank for the nine months ended September 30, 2009 and 2008, and the year ended December 31, 2008 are presented below. The unaudited pro forma information presented does not necessarily reflect the results of operations that would have resulted had the acquisition been completed at the beginning of the applicable periods presented, nor does it indicate the results of operations in future periods.

The pro forma purchase accounting adjustments related to loans and leases, deposits, securities sold under repurchase agreements and other borrowed funds are being accreted or amortized into income using methods that approximate a level yield over their respective estimated lives. Purchase accounting adjustments related to identifiable intangibles are being amortized and recorded as noninterest expense over their respective estimated lives using accelerated methods. The pro forma consolidated condensed statements of income do not reflect any adjustments to County s historical provision for credit losses and goodwill impairment charges.

Table of Contents

	Nine months ended September 30, 2009 (In thousands except per share data)				Nine months ended September 30, 2008 (In thousands except per share data)			
	Westamerica	County Bank	Pro Forma Adjustments	Pro Forma Combined	Westamerica	County Bank	Proforma Adjustments	Pro Forma Combined
Interest Income	$ 152,357	$ 57,284	$ (3,603)	$ 206,038	$ 159,024	$ 91,110	$ (3,603)	$ 246,531
Interest Expense	8,191	15,483	(7,626)	16,048	28,651	32,249	(7,626)	53,274
Net Interest Income	144,166	41,801	4,023	189,990	130,373	58,861	4,023	193,257
Provision for Credit Losses	7,200	11,734		18,934	1,800	26,827		28,627
Net Interest Income after Provision for Credit Losses	136,966	30,067	4,023	171,056	128,573	32,034	4,023	164,630
Noninterest Income (Loss)	40,548	11,437	48,844	100,829	(11,963)	4,603	48,844	41,484
Noninterest Expense	75,875	34,267	4,956	115,098	74,596	89,896	4,956	169,448
Income (Loss) Before Taxes	101,639	7,237	47,911	156,787	42,014	(53,259)	47,911	36,666
Income Tax Provision (Benefit)	36,590	3,043	20,147	59,780	2,989	7,642	20,147	30,778
Net Income (Loss)	$ 65,049	$ 4,194	$ 27,764	$ 97,007	$ 39,025	$ (60,901)	$ 27,764	$ 5,888
Net Income (Loss) Applicable to Common Equity	$ 61,898	$ 4,194	$ 27,764	$ 93,856	$ 39,025	$ (60,901)	$ 27,764	$ 5,888
Earnings (Loss) Per Common Share	$ 2.13	$ 0.14	$ 0.96	$ 3.23	$ 1.35	$ (2.11)	$ 0.96	$ 0.20
Diluted Earnings (Loss) Per Common Share	2.11	0.14	0.95	3.20	1.33	(2.08)	0.95	0.20

Average Common Shares Outstanding	29,072	28,895
Diluted Average Common Shares Outstanding	29,313	29,292

	Year ended December 31, 2008 (In thousands except per share data)			
	Westamerica	**County Bank**	**Pro Forma Adjustments**	**Pro Forma Combined**
Interest Income	$ 208,469	$ 117,175	$ (4,477)	$ 321,167
Interest Expense	33,243	40,462	(9,717)	63,988
Net Interest Income	175,226	76,713	5,240	257,179
Provision for Credit Losses	2,700	55,370		58,070
Net Interest Income after Provision for Credit Losses	172,526	21,343	5,240	199,109
Noninterest (Loss) Income	(2,056)	5,775	48,844	52,563
Noninterest Expense	100,761	115,774	5,989	222,524
Income (Loss) Before Taxes	69,709	(88,656)	48,095	29,148
Income Tax Provision	9,874	7,381	20,224	37,479
Net Income (Loss)	$ 59,835	$ (96,037)	$ 27,871	$ (8,331)
Net Income (Loss) Applicable to Common Equity	$ 59,835	$ (96,037)	$ 27,871	$ (8,331)
Earnings (Loss) Per Common Share	$ 2.07	$ (3.32)	$ 0.96	$ (0.29)
Diluted Earnings (Loss) Per Common Share	2.04	(3.28)	0.95	(0.28)
Average Common Shares Outstanding	28,892			
Diluted Average Common Shares Outstanding	29,273			

Note 4: Investment Securities

The amortized cost, unrealized gains and losses, and estimated market value of the available for sale investment securities portfolio as of September 30, 2009 follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
		(In thousands)		
U.S. Treasury securities	$ 3,003	$ 20	$	$ 3,023
Securities of U.S. Government sponsored entities	1,015	68		1,083
Mortgage-backed securities	151,077	3,783	(2)	154,858

Obligations of States and political subdivisions	165,129	5,363	(424)	170,068
Collateralized mortgage obligations	46,864	802	(248)	47,418
Asset-backed securities	10,000	0	(2,135)	7,865
FHLMC and FNMA stock	824	1,910		2,734
Other securities	2,778	1,849	(32)	4,595
Total	$ 380,690	$ 13,795	$ (2,841)	$ 391,644

Table of Contents

The amortized cost, unrealized gains and losses, and estimated market value of the held to maturity investment securities portfolio as of September 30, 2009 follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
		(In thousands)		
Securities of U.S. Government sponsored entities	$ 25,000	$ 89	$	$ 25,089
Mortgage-backed securities	66,489	1,955		68,444
Obligations of States and political subdivisions	528,147	21,409	(794)	548,762
Collateralized mortgage obligations	161,210	3,767	(6,379)	158,598
Total	$ 780,846	$ 27,220	$ (7,173)	$ 800,893

The amortized cost, unrealized gains and losses, and estimated market value of the available for sale investment securities portfolio as of December 31, 2008 follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
		(In thousands)		
U.S. Treasury securities	$ 3,014	$ 68	$	$ 3,082
Securities of U.S. Government sponsored entities	11,019	71	(13)	11,077
Mortgage-backed securities	40,302	941	(3)	41,240
Obligations of States and political subdivisions	156,602	5,042	(598)	161,046
Collateralized mortgage obligations	61,565	&nbss, we will utilize a network of industry contacts and relationships to generate significant information about current and future market conditions. The map below provides our most current analysis of the markets where we believe		

opportunities exist for us to acquire properties. These markets have different favorable and unfavorable traits which might cause us to make different acquisition decisions in each market, depending on the type of asset available in the market, the submarket it is located in within that market, the pricing we anticipate for that asset and our view on how the asset, the submarket and the broader market will perform. The areas in blue on the map below indicate additional markets we are currently targeting for properties to acquire; however, no assurance can be given that suitable

properties will be acquired in such areas. These markets have been selected because our affiliated operations currently have a significant presence in these markets or we have determined that the market presents a good opportunity for property acquisitions. We anticipate this presence will provide us more accurate and timely market data when evaluating potential acquisitions and speed and efficiency in putting in place a property management team post-acquisition.

The map below is a guide and will change as additional information becomes available to us regarding national, market or local trends. As of the date of this prospectus, we own and operate multifamily communities in the MSA's in the markets identified on the map below. We may however, purchase properties in markets other than those shown on the map below.

Our Multifamily Branding and Marketing Strategy

Our Manager has registered "A Preferred Apartment Community" as a trademarked logo with the United States Patent and Trademark Office. Our Manager has branded, and in the future will continue to brand, all apartment communities owned by the company as "A Preferred Apartment Community" and has made it the ultimate tagline for each of our communities that we believe signifies our brand and management standards. This strategy allows each individual community to be part of a centralized marketing and advertising campaign, in addition to property level marketing and advertising campaigns. We expect that these campaigns will further enhance each individual property’s presence in the marketplace, and we believe that this will allow our communities to be perceived as premier over other properties within the marketplace. Our Manager has entered into a non-exclusive license agreement with the company, as licensee, with respect to all intellectual property of the Manager other than trademarks. In the event of termination of the Management Agreement, all rights to our name will be transferred to us.

Upon the acquisition of each of our communities, we plan to implement what we believe to be an innovative and unique marketing and branding strategy by rolling out the PAC Concierge, PAC Rewards and PAC Partners programs (as described below). We anticipate implementing these programs at any newly acquired community shortly following acquisition.

The PAC Concierge program is a complimentary service for our residents designed to offer them the type of personal concierge services that you would expect at a high end resort. The concierge services are provided by a professionally trained team ready to coordinate services such as running errands and making dinner reservations, golf tee times and travel arrangements, as well as many other services. Our concierge service is available to our residents 24/7 by telephone, email or web access through our unique resident web portal.

The PAC Rewards program allows residents to accumulate and redeem rewards points for services and upgrades to their home, such as painting an accent wall, carpet cleaning or installing a ceiling fan or kitchen backsplash. Residents may accumulate Preferred Rewards, for example, when they sign their lease, pay their rent online, enroll in our direct debit/automatic payment program, renew their leases, or when a resident's referral signs a new lease.

The PAC Partners program establishes reciprocal relationships between a Preferred Apartment Community and neighborhood businesses to provide our residents with benefits such as discounts, perks and other incentives as an enticement to frequent those businesses and to support the local community.

Student Housing Investing

We believe that student housing investing is an attractive sub-strategy within the multifamily sector as the performance of student housing can be counter cyclical to market rate multifamily apartments in down markets. As universities allocate resources away from on campus housing, we believe this sector creates an excellent investment opportunity for our portfolio.

Our Student Housing Market Opportunities

The National Center for Education Statistics projects college enrollment to increase to 22.1 million students by 2021. As can be seen from the chart below, enrollment continues to trend upward, despite increases in student debt and tuition rates and during times of economic downturns. The US Census Bureau projects that the population under 18 will continue to grow, a sign that the national enrollment should continue to climb. We believe increased enrollment tends to result in greater demand for quality purpose-built student housing communities.

Source: Axiometrics, National Center for Education Statistics.

We believe that growth in the student housing market is and will be attributable to both the millennial population and the "Generation Z" demographic, comprised of individuals born between 1996 and 2010.

Additionally, we believe that increased enrollment of international students will increase the demand for student housing. The chart below highlights that for the school year 2014-2015, a record high of 974,926 international students enrolled in the U.S., which was a 10% increase over the prior year.

Universities nationally are struggling to supply housing for students due to increased enrollment. As of the date of this prospectus, on average, the largest universities in the country are able to provide approximately 20% of their undergraduate student body with on-campus housing. The remaining supply of housing options comes from off-campus options. We believe that proximity to campus is one of the key factors in student housing success. Our strategy is to focus on assets located near the applicable campus. As shown below, the national price per bed increases the closer the bed is to the campus.

By combining privately owned, purpose built properties with student competitive conventional apartments in our target student housing markets, Axiometrics believes that annual effective rent growth will increase from 2016 to 2021, with occupancy rates remaining relatively stable in the mid-95% range.

Our Student Housing Investment Strategy

We seek to maximize returns for our stockholders by taking advantage of the current environment in the real estate market and the United States economy. As, and if, the real estate market and economy continue to stabilize, we intend to employ efficient management techniques to grow income and create asset value. As part of this strategy, our student housing investment strategies may include, without limitation, the following:

- acquiring Class “A” multifamily assets dedicated to student housing at universities throughout the United States. These assets will be located near the applicable campus. We will endeavor to acquire assets with demonstrated track records of occupancy and rental rates. The universities served by these assets should generally be larger schools typically demonstrating increasing enrollment and market trends that indicate new development is being or should be absorbed at attractive rental rates; and
- originating real estate loans secured by interests in student housing properties, membership or partnership interests in student housing properties and other student housing related assets.

Our Student Housing Target Markets

We target universities with enrollments of a least 15,000 students and desirable locations within pedestrian and biking distance to campus. The map below illustrates our current investments. We currently own and operate one student housing community in Tallahassee, Florida and we have real estate loan investments for student communities in Lubbock, Texas; Waco, Texas; College Station, Texas; Starkville, Mississippi and Atlanta, Georgia. We may purchase properties in markets other than those shown on the map below.

Retail Investing

Our Retail Market Opportunities

Our strategy is to acquire and operate, or invest in the development of, grocery-anchored shopping centers in suburban submarkets within the top 100 metros from the Virginia side of Washington, D.C. down through the Mid-Atlantic, Southeast, Florida, Tennessee, and out through Texas. We target market dominant grocery anchors that maintain significant market share and that have growing and high relative sales per square foot stores in that particular market. We also will target on a select basis a specialty grocer, such as Whole Foods, Sprouts, Fresh Market, or Trader Joes, in a market where they have a high sales per square foot store.

We focus on the grocery-anchored space because the types of tenants in these shopping centers are more necessity-based and we believe our grocery-anchored shopping centers will, as a result, be significantly less impacted by e-commerce.

In addition, we focus on grocery store operators that have significant market share because we believe this increases the productivity and profitability of the stores in those markets. In this circumstance, we believe the operator is less likely to abandon a market or, if they did choose to vacate a market, the store should be more attractive to a chain that may acquire such store.

Furthermore, we focus on high and growing sales per square foot grocery-anchored stores because we believe this reflects the profitability and future prospects of that particular store, which increases the likelihood that the particular anchor store remains open and exercises its lease renewal options. We also believe that a high sales per square foot grocery store generates significant foot traffic at the shopping center of two to three times per week on average and within two to three miles from people’s homes on average. This consistent foot traffic benefits the other small shop tenants in

our centers.

To date, approximately 80% of the NOI in our shopping centers comes from grocery stores, food and beverage, service uses, healthcare and fitness, all uses that are significantly less impacted by e-commerce. Only 12% of our NOI comes from general retail uses.

We also research the underlying demographic trends of the suburban submarkets where we invest. We believe that our submarkets will experience continued residential growth which will be for the benefit of the occupants of our shopping centers.

As can be seen from the charts below, since 2010, the new supply of shopping centers is at a significant historical low, while the population in our target markets continues to increase.

Our Retail Investment Strategy

We seek to maximize returns for our stockholders by taking advantage of the current environment in the real estate market and the United States economy. As, and if, the real estate market and economy continue to stabilize, we intend to employ efficient management techniques to grow income and create asset value. Our retail investment strategies may include, without limitation, the following:

- acquiring grocery-anchored shopping centers, subject to a limitation that such other non-multifamily real estate related investments may not exceed the 20% non-multifamily related asset cap. These assets typically are anchored by one of the market dominant grocers in the trade area. We will endeavor to acquire shopping centers with a track record of strong and increasing sales per square foot at the anchor store;

- acquiring grocery-anchored shopping centers which we believe will generate sustainable cash flow from operations sufficient to allow us to cover the dividends that we expect to declare and pay and which we believe will have the potential for capital appreciation;

36

- originating real estate loans secured by interests in grocery-anchored shopping centers, not to exceed the 20% non-multifamily related asset cap, in other non-multifamily real estate related investments;

- taking advantage of the expected moderate level of new retail development based on the continued trend from the last few years; and

- taking advantage of the anticipated availability of financing from life insurance companies, banks and conduit lenders that fits within our financing strategy as set forth in our most recent Annual Report on Form 10-K, any subsequent Quarterly Reports on Form 10-Q and any SEC reports on Form 8-K.

In implementing our investment strategy, we will use our Manager's and its affiliates' expertise in identifying attractive investment opportunities with the target classes described below, as well as their transaction sourcing, underwriting, execution and asset management and disposition capabilities. We expect that our Manager will make decisions based on a variety of other factors, including expected risk-adjusted returns, credit fundamentals, liquidity, availability of adequate financing, borrowing costs and macroeconomic conditions. In addition, all investment decisions will be made with a view to obtaining and maintaining qualification as a REIT.
We believe that the opportunity to purchase retail assets today, generally at or below replacement cost, combined with the general forecast of continued NOI growth, supports our investment strategy. However, our investment strategy is dynamic and flexible, which we anticipate will enable us to adapt to shifts in economic, real estate and capital market conditions and to exploit inefficiencies. Consistent with this strategy, our investment decisions will depend on prevailing market conditions and may change over time in response to opportunities available in different economic and capital market conditions. We believe this approach allows us to identify appropriate opportunities in all market cycles.

In particular, we will seek to acquire retail assets that:

- are of varying age depending on the return profile and the specific strategy for each asset;
- have target capitalization rates varying by market and asset type - in light of today's interest rate environment, we believe core assets in the more stable markets could range between 5.0% and 7.5% and more opportunistic assets could have significantly higher stabilized capitalization rates;
- have exit capitalization rates forecasted based on market performance, interest rate assumptions, and asset strategy but that generally mirror entry capitalization rates (except on more opportunistic targets);
- are in suburban markets generally within the top 100 MSAs of the Sunbelt region;
- have dominant grocery anchors that maintain a #1 or #2 market share and that have growing and high relative sales per square foot stores in such market; and
- have specialty grocers such as Whole Foods, Fresh Market, Sprouts or Trader Joes' in a submarket where such specialty grocer has a solid sales history.

We will seek to acquire our target assets primarily for income, and only secondarily for possible capital gain. We currently do not anticipate making any material investment in unimproved property, developing new construction properties or acquiring new construction, except that we may enter into forward purchase or option to purchase contracts on to-be-built grocery-anchored assets with the appropriate provisions for minimum occupancy and income thresholds in order for us to expect the assets to be priced appropriately. In connection with entering into a forward purchase or option to purchase contract, we may be required to provide a deposit, a real estate loan or other assurances of our ability to perform our obligations under the forward purchase or option to purchase contract.

Our target retail asset acquisitions typically fit into three categories consisting of:

-

Core: Core assets can best be described as being grocery-anchored properties strategically located in major markets with high sales per square foot and occupancy that generate steady cash flow. These properties are typically well maintained with little deferred maintenance. The stabilized capitalization rates for core properties range from 5.0% to 6.5%;

- Core Plus: Core Plus assets can best be described as being grocery-anchored properties strategically located in the top 100 MSAs that are not major markets and located in the top submarkets of those markets. Like the core assets, these properties have market leading grocery operators that have high sales per square foot and occupancy levels that generate steady cash flow. Core Plus assets also can be located in major markets, but will have additional upside to increase cash flow either through upcoming lease roll and/or modest lease up. This Core Plus category achieves higher overall returns than Core Assets. These properties are typically well maintained with little deferred maintenance. The stabilized capitalization rates for Core Plus properties range from 6.0% to 7.5%; and

- Value Add: Value Add assets can best be described as slightly older assets (up to 25 years old) in major markets, but submarkets can be infill or suburban. Value Add assets typically have some deferred maintenance issues, capital expenditure needs and/or modest operational or occupancy deficiencies that may require more management intensive efforts than core assets. These operational deficiencies could include, but are not limited to, below market occupancy rates, unqualified or inexperienced management teams on site or at the corporate level, deferred maintenance and capital expenditure needs. The stabilized capitalization rates for value add assets are expected to be higher (6.0% to 8.0% currently) than Core Assets with higher expected returns.

Because our strategy focuses on purchasing assets with stable, in-place income and dividend coverage, our acquisition efforts will be primarily geared on the Core Asset class described above. However, we believe the market is well positioned for us take advantage of Value Add product and our acquisition efforts may grow and expand to include more Value Add assets if we see such investments as accretive to our stockholders.

As a secondary strategy, we also may invest, subject to the 20% non-multifamily related asset cap, in grocery-anchored shopping centers, senior mortgage loans, subordinate loans or real estate loans secured by interests in grocery-anchored shopping centers, membership or partnership interests in grocery-anchored shopping centers and other grocery-anchored shopping center related assets as determined by our Manager as appropriate for us.

Our Retail Target Markets

We intend to use a variety of metrics and measures to assist us in determining the appropriateness of the markets we will target for acquisitions, the sub-markets within those markets and the individual assets we will acquire. Generally, we intend to target the top 100 MSAs with favorable economic conditions. The conditions we may monitor in determining the economic conditions of a market include, but are not limited to, job growth, household income, the pipeline of new supply for grocery-anchored shopping centers, current and forecasted rental rate growth for grocery-anchored shopping centers, and other statistics that may be relevant to individual markets.

In addition, we intend to analyze data from our operations to corroborate any assumptions. In addition to the analysis of current economic conditions and forecasts and the data provided by our operations, we will utilize a network of industry contacts and relationships to generate significant information about current and future market conditions. The map below provides our most current analysis of the markets where we believe opportunities exist for us to acquire properties. These markets have different favorable and unfavorable traits that might cause us to make different acquisition decisions in each market, depending on the type of asset available in the market, the submarket it is located in within that market, the pricing we anticipate for that asset and our view on how the asset, the submarket and the broader market will perform. The areas in blue on the map below indicate additional markets we are currently targeting for properties to acquire; however, no assurance can be given that suitable properties will be acquired in such areas. We anticipate this presence will provide us more accurate and timely market data when evaluating potential acquisitions and speed and efficiency in putting in place a property management team post- acquisition.

The map below is a guide and will change as additional information becomes available to us regarding national, market or local trends. We currently own and operate grocery-anchored shopping centers geographically concentrated

within the Sunbelt region of the United States and we may purchase properties in markets other than those shown on the map below.

38

Other Investing
Specifically, we seek to acquire other non-multifamily assets, including Class "A" office assets, subject to a limitation that such other real estate related investments may not exceed the 20% non-multifamily related asset cap. In connection with acquiring Class "A" office assets, we believe such properties provide an excellent investment opportunity to marry significant, existing in-house expertise with that we believe is an undervalued, underappreciated product class. We will endeavor to acquire well leased, high credit, low risk, Class "A" office buildings.

USE OF PROCEEDS

The table below sets forth our estimated use of proceeds from this offering, assuming we sell the maximum of 500,000 mShares in this offering at the public offering price of $1,000 per mShare for maximum gross offering proceeds of $500 million.

The mShares will have an initial Stated Value of $1,000 per mShare. Each mShare will be sold at a public offering price of $1,000 per mShare.

Estimated Application of Proceeds of this Offering

	Maximum Offering	
	Amount	Percent
Gross offering proceeds	$500,000,000	100.00%
Offering expenses:		
Dealer manager fee[(1)]	$15,000,000	3.00 %
Other offering expenses[(2)]	$7,500,000	1.50 %
Amount available for investment[(3)]	$477,500,000	95.50 %
Cash down payment (equity)	$456,851,351	91.37 %
Loan Coordination Fees[(4)]	$20,648,649	4.13 %
Proceeds invested	$477,500,000	95.50 %
Offering expenses	$22,500,000	4.50 %
Total application of proceeds	$500,000,000	100.00%

---

(1) Assumes a dealer manager fee of 3.0% of gross offering proceeds in the offering under this prospectus. See the "Plan of Distribution" section of this prospectus for a description of these fees. We or our affiliates also may provide permissible forms of non-cash compensation to registered representatives of our dealer manager and the participating broker-dealers, including gifts. In no event shall such gifts exceed an aggregate value of $100 per annum per participating salesperson, or be pre-conditioned on achievement of a sales target. The value of such items will be considered underwriting compensation in connection with this offering, and the corresponding payments of our dealer manager fee will be reduced by the aggregate value of such items. The aggregate combined dealer manager fee and such non-cash compensation for this offering will not exceed FINRA's 10% cap.

(2) Includes all expenses (other than the dealer manager fee) to be paid by us or on our behalf in connection with the qualification and registration of this offering and the marketing and distribution of the mShares, including, without limitation, expenses for printing and amending registration statements or supplementing prospectuses, mailing and distributing costs, all advertising and marketing expenses, charges of transfer agents, registrars and experts and fees, expenses and taxes related to the filing, registration and qualification, as necessary, of the sale of the mShares under federal and state laws, including taxes and fees and accountants' and attorneys' fees. We will reimburse our Manager and its affiliates for such offering expenses in an amount up to 1.5% of gross offering proceeds based on the aggregate proceeds of this offering. Our Manager and its affiliates will be responsible for any such offering expenses that exceed 1.5% of aggregate gross offering proceeds under this offering, without recourse against or reimbursement by us; however, upon approval by the conflicts committee of our Board of Directors, we may reimburse our Manager for any such expenses incurred above the 1.5% amount as permitted by FINRA. Subject to the foregoing, all organization and offering expenses, including the dealer manager fee, will be capped at 11.5% of the aggregate gross proceeds of this offering.

(3) Although the net proceeds are expected to be used in connection with the acquisition of multifamily properties and other real estate-related investments, including grocery-anchored shopping centers, and the payment of fees and expenses related thereto, the proceeds are available for our other capital needs, whether related to the repayment of debt or otherwise. For purposes of this table, however, we have assumed that we will use all the net proceeds for acquisitions of real property and the payment of related fees and expenses. Until required in connection with the acquisition of real property or other capital needs, we intend to invest the net proceeds of this offering in a manner

which will not adversely affect our ability to qualify, or maintain our qualification, as a REIT.

(4) Loan coordination fees are paid to the Manager upon the closing of a property and are calculated as 1.6% of any assumed, new or supplemental debt incurred in connection with an acquired property, or 1.6% of 63% of the purchase price if the asset is not leveraged, and are governed by the Management Agreement. For purposes of this assumption, we assume 63.0% leverage on all acquisitions.

Assuming the maximum offering, we estimate that we will receive net proceeds from the sale of our mShares in this offering of approximately $477.5 million, after deducting estimated offering expenses, including the dealer manager fee, payable by us of approximately $22.5 million.

We intend to invest substantially all the net proceeds of this offering in connection with the acquisition of multifamily properties and other real estate-related investments, including grocery-anchored shopping centers, and for general working capital purposes. If all the net proceeds of this offering are used to directly acquire real property, we estimate that these investments would have an aggregate gross value (inclusive of mortgage indebtedness) of approximately $1.3 billion assuming the maximum offering. We intend to acquire such investments through the incurrence of indebtedness (secured and unsecured) of approximately 63% of the value of our tangible assets on a portfolio basis, with the balance of the acquisition cost thereof funded through the use of the net proceeds of this offering.

Neither our charter nor our bylaws contain any limitation on the amount of leverage we may use. Our investment guidelines, which can be amended by our Board of Directors without stockholder approval, limit our borrowings (secured and unsecured) to 75% of the cost of our tangible assets at the time of any new borrowing. The credit agreement for our credit facility specifically limits our ability to make cash dividends to the greater of (i) the amount required for us to maintain our status as a REIT or (ii) 95.0% of our adjusted funds from operations on a consolidated basis.

Our Manager may invest net proceeds of this offering in interest-bearing short-term investments that are consistent with our intention to qualify as a REIT, pending investment in our target assets. These initial investments are expected to provide a lower net return than we will seek to achieve from our target assets.

RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS
Our consolidated ratio of earnings to combined fixed charges and preferred stock dividends for the years ended December 31, 2011, 2012, 2013, 2014 and 2015 and for the nine months ended September 30, 2016 are set forth below.

Ratio of Earnings to Combined Fixed Charges and Preferred Dividends

	Nine months ended September 30,	Year ended December 31,				
	2016	2015	2014	2013	2012	2011
Earnings:						
Net income (loss)	$(5,860,631)	$(2,425,989)	$2,127,203	$(4,205,492)	$(146,630)	$(8,495,424)
Add:						
Fixed charges	30,688,505	21,315,731	10,188,187	5,780,526	2,504,679	1,514,581
Less: Net (income) loss attributable to non-controlling interests	175,045	25,321	(33,714)	222,404	—	—
Total earnings	$25,002,919	$18,915,063	$12,281,676	$1,797,438	$2,358,049	$(6,980,843)

Fixed charges: