

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

PLAINTIFF, Individually and on Behalf
of
All Others Similarly Situated,

Plaintiff,

v.

PACWEST BANCORP, MATTHEW P.
WAGNER, PAUL W. TAYLOR, BART
R. OLSON, and KEVIN LEWIS
THOMPSON,

Defendants.

Case No.

CLASS ACTION

COMPLAINT FOR VIOLATIONS OF
THE FEDERAL SECURITIES LAWS

DEMAND FOR JURY TRIAL

Plaintiff, individually and on behalf of all others similarly situated, by and through Plaintiff's attorneys, alleges the following upon information and belief, except as to those allegations concerning Plaintiff, which are alleged upon personal knowledge. Plaintiff's information and belief is based upon, *inter alia*, the investigation conducted by Plaintiff's counsel, which includes

without limitation: (a) review and analysis of regulatory filings made by PacWest Bancorp (“PacWest” or the “Company”) with the United States (“U.S.”) Securities and Exchange Commission (“SEC”); (b) review and analysis of press releases and media reports issued and disseminated by PacWest; and (c) review of other publicly available information concerning PacWest.

NATURE OF THE ACTION

1. This is a class action on behalf of persons and entities that purchased or otherwise acquired PacWest securities between February 28, 2022 and May 3, 2023, inclusive (the “Class Period”). Plaintiff pursues claims against the Defendants under the Securities Exchange Act of 1934 (“Exchange Act”).

2. PacWest operates as a holding company for its wholly-owned subsidiary, Pacific Western Bank (“PWB”), a regional bank based in Los Angeles, California. To support its operations, the Company depends primarily on deposits and external financing sources. Accordingly, PacWest purports to offer “traditional deposit products to businesses and other customers with a variety of rates and terms, including demand, money market, and time deposits” to small, middle-market, and venture-backed businesses.

3. As the holding company of PWB, the value of PacWest’s deposit base is dependent upon interest rates established by the U.S. Federal Reserve (the “Fed”) for federal funds—*i.e.*, excess reserves that commercial banks and other financial

institutions deposit at regional banks which can be then lent to customers. Specifically, when the Fed raises interest rates for federal funds, the value of fixed income securities declines. For example, beginning in March 2022, the Fed raised interest rates approximately eight times over the course of a year, elevating the federal fund rate from neatly zero to a target of 4.5% to 4.75%. As a result, by early March 2023, the S&P U.S. Government Bond Index, which tracks the performance of U.S. dollar-denominated U.S. Treasury and U.S. agency debt issued in the U.S. domestic market, was down 6.4% over the preceding 12 months.

4. Following the Fed’s series of aggressive interest rate hikes, in early March 2023 several small- to mid-size U.S. banks failed in rapid succession, triggering a sharp decline in global bank stock prices and widespread depositor concerns. In particular, regional banks Silvergate Bank (“Silvergate”), Silicon Valley Bank (“SVB”), Signature Bank, and First Republic Bank (“First Republic”) each experienced severe liquidity crises that ultimately led to voluntary liquidation and/or regulatory takeover.

5. Taken together, the collapses of Silvergate, SVB, Signature Bank, and First Republic, all of which were smaller banks with excessive concentration in specific industries, highlighted the specific risks associated with banks with similar concentration and liquidity profiles—*i.e.*, like PacWest, given its venture-focused business model and primarily small- to middle-market business deposit base. What

is more, Silvergate and SVB specifically cited the Fed’s aggressive interest rate hikes as being a contributing factor to their collapse. Accordingly, in response to the various bank failures, on March 10, 2023, PacWest issued a press release to reiterate the supposed strength of the Company’s financial position, stating that PWB is a “well-performing, well-diversified, full-service commercial bank with more than twenty years of history.”

6. However, on May 3, 2023, less than two months after PacWest reassured investors of its financial strength, *Bloomberg* published an article entitled “Regional Banks Sink as PacWest Weighs Strategic Options.” According to *Bloomberg*, “PacWest Bancorp led a renewed slide in regional banks after a report that it’s weighing strategic options including a sale heightened concerns that the turmoil engulfing smaller lenders is far from over[,]” and “[t]he sector has been under pressure as rising interest rates lowered the value of their longer-term investments while increasing the cost of funding and spurring depositors to move cash into higher-yielding money market funds.”

7. Shortly thereafter, *Forbes* published an article entitled “PacWest Stock Falls 39% After Federal Reserve’s Latest Interest Rate Hike.” The *Forbes* article stated that “[h]igher interest rates intensify the spread of the latest bank failure virus that drives deposits out of vulnerable banks, tanks their stock prices, and ultimately prompts an FDIC-enabled rescue[,]” and “the big loss an acquirer would incur to

mark down the value of some PacWest loans makes it unlikely a buyer will emerge for the entire bank.”

8. Following the publication of the *Bloomberg* and *Forbes* articles, PacWest’s stock price fell \$2.84 per share, or 44.17%, to close at \$3.59 per share on May 4, 2023.

9. Then, on May 11, 2023, PacWest disclosed in a Quarterly Report filed on Form 10-Q with the SEC that that it had lost a significant percentage of its deposits following the publication of the *Bloomberg* and *Forbes* reports. Specifically, the Company stated that “the news headlines increased our customers fears of the safety of their deposits. During the week ended May 5, 2023, our deposits declined approximately 9.5%, with a majority of that decline occurring on May 4th and May 5th after the news reports on the afternoon of May 3rd.”

10. On this news, PacWest’s stock price fell \$1.38 per share, or 22.77%, to close at \$4.68 per share on May 11, 2023.

11. Finally, on July 25, 2023, it was announced that PacWest had entered into an agreement to be purchased by Banc of California, Inc. (“Banc of California”). Under the terms of the agreement, PacWest stockholders were to receive 0.6569 of a share of Banc of California common stock for each share of PacWest common stock.

12. Throughout the Class Period, Defendants made materially false and/or misleading statements, as well as failed to disclose material adverse facts about the Company's business, operations, and prospects. Specifically, Defendants failed to disclose to investors that: (i) PacWest had understated the impact of interest rate hikes on PWB, a smaller bank with excessive concentration in specific industries; (ii) accordingly, the Company had overstated the stability and/or sustainability of its deposit base; (iii) as a result, PacWest was exceptionally vulnerable to excessive deposit flows and/or a liquidity crisis; and (iv) as a result, Defendants' public statements were materially false and/or misleading at all relevant times.

13. As a result of Defendants' wrongful acts and omissions, and the precipitous decline in the market value of the Company's securities, Plaintiff and other Class members have suffered significant losses and damages.

JURISDICTION AND VENUE

14. The claims asserted herein arise under Sections 10(b) and 20(a) of the Exchange Act (15 U.S.C. §§ 78j(b) and 78t(a)) and Rule 10b-5 promulgated thereunder by the SEC (17 C.F.R. § 240.10b-5).

15. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. § 1331 and Section 27 of the Exchange Act (15 U.S.C. § 78aa).

16. Venue is proper in this Judicial District pursuant to 28 U.S.C. § 1391(b) and Section 27 of the Exchange Act (15 U.S.C. § 78aa(c)). PacWest is headquartered in this Judicial District, Defendants conduct business in this Judicial District, and a significant portion of Defendants' actions took place within this Judicial District.

17. In connection with the acts, transactions, and conduct alleged herein, Defendants directly and indirectly used the means and instrumentalities of interstate commerce, including the U.S. mail, interstate telephone communications, and the facilities of a national securities exchange.

PARTIES

18. Plaintiff, as set forth in the accompanying Certification, incorporated by reference herein, purchased PacWest securities during the Class Period and suffered damages as a result of the federal securities law violations and false and/or misleading statements and/or material omissions alleged herein.

19. Defendant PacWest is a Delaware corporation with principal executive offices located at 9701 Wilshire Blvd., Suite 700, Beverly Hills, CA 90212. PacWest's common stock trades in an efficient market on the Nasdaq Global Select Market ("NASDAQ") under the ticker symbol "PACW."

20. Defendant Matthew P. Wagner (“Wagner”) served as PacWest’s Chief Executive Officer (“CEO”) from prior to the start of the Class Period until January 2023.

21. Defendant Paul W. Taylor (“Taylor”) has served as PacWest’s CEO, President, and Director since January 2023.

22. Defendant Bart R. Olson (“Olson”) served as PacWest’s Executive Vice President (“V.P.”) and Chief Financial Officer (“CFO”) from prior to the start of the Class Period until November 2022.

23. Defendant Kevin Lewis Thompson (“Thompson”) has served as PacWest’s Executive V.P. and CFO since November 2022.

24. Defendants Wagner, Taylor, Olson, and Thompson (collectively, the “Individual Defendants”), because of their positions with the Company, possessed the power and authority to control the contents of the Company’s reports to the SEC, press releases and presentations to securities analysts, money and portfolio managers, and institutional investors, *i.e.*, the market. The Individual Defendants were provided with copies of the Company’s reports and press releases alleged herein to be misleading prior to, or shortly after, their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Because of their positions and access to material non-public information available to them, the Individual Defendants knew that the adverse facts specified herein had not been

disclosed to, and were being concealed from, the public, and that the positive representations which were being made were then materially false and/or misleading. The Individual Defendants are liable for the false statements pleaded herein.

25. PacWest and the Individual Defendants are collectively referred to herein as “Defendants”.

SUBSTANTIVE ALLEGATIONS

Background

26. PacWest operates as a holding company for its wholly-owned subsidiary, PWB, a regional bank based in Los Angeles, California.

Materially False and Misleading Statements Issued During the Class Period

27. The Class Period begins on February 28, 2022, when PacWest filed an Annual Report on Form 10-K with the SEC, reporting the Company’s financial and operating results for the year ended December 31, 2021 (the “2021 10-K”). In providing an overview of the Company’s business strategy, the 2021 10-K stated, in relevant part:

Our business strategy is to operate a client-focused, well-capitalized and profitable nationwide bank dedicated to providing personal service to our business and individual customers. We believe that stable, long-term growth and profitability are the result of building strong customer relationships while maintaining disciplined credit underwriting standards. *We continue to focus on originating high-quality loans and leases and growing our low-cost deposit base*

*through our relationship-based business lending.*¹ These principles enable us to maintain operational efficiency, increase profitability, increase core deposits, and grow loans and leases in a sound manner.

Our loan and lease portfolio consists primarily of real estate mortgage loans, real estate construction and land loans, and commercial loans and leases. We pursue attractive growth opportunities to expand and enter new markets aligned with our business model and strategic plans. Additionally, we focus on cultivating strong relationships with venture capital and private equity firms nationwide, many of which are also our clients and/or may invest in our clients.

Our reputation, expertise, and relationship-based business banking model enable us to deepen our relationships with our customers. We leverage our relationships with existing customers by providing access to an array of our products and services, including attracting deposits from and offering cash management solutions to our loan and lease customers. We competitively price our deposit products to meet the needs of our customers with a view to maximizing our share of each customer's financial services business and prudently managing our cost of funds.

Focusing on operational efficiency is critical to our profitability and future growth. We carefully manage our cost structure and continuously refine and implement internal processes and systems to create further efficiencies to enhance our earnings.

28. Further, in discussing the Company's risk oversight and management, the 2021 10-K stated, in relevant part:

We believe risk management is another core competency of our business. We have a comprehensive risk management process that measures, monitors, evaluates, and manages the risks we assume in conducting our activities.

¹ All emphases included herein are added unless otherwise indicated.

Our risk framework is structured to guide decisions regarding the appropriate balance between risk and return considerations in our business. Our risk framework is based upon our business strategy, risk appetite, and financial plans approved by our Board. Our risk framework is supported by an enterprise risk management program. Our enterprise risk management program integrates all risk efforts under one common framework. This framework includes risk policies, procedures, measured and reported limits and targets, and reporting. Our Board approves our risk appetite statement, which sets forth the amount and type of risks we are willing to accept in pursuit of achieving our strategic, business, and financial objectives. Our risk appetite statement provides the context for our risk management tools, including, among others, risk policies, delegated authorities, limits, portfolio composition, underwriting standards, and operational processes.

29. Appended to the 2021 10-K as exhibits were signed certifications pursuant to the Sarbanes-Oxley Act of 2002 (“SOX”) by Defendants Wagner and Olson, attesting that “the information contained in the 2021 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.”

30. On April 19, 2022, PacWest issued a press release announcing the Company’s Q1 2022 results. The press release quoted Defendant Wagner, stating, in relevant part:

“Although external events and the resulting volatility in the capital market negatively impacted the first quarter, we continued to make progress on our strategic priorities of increasing earning assets through loan growth and growing net interest income while continuing to improve asset quality. The increase in average loans and leases of nearly \$2.1 billion and decreasing higher-rate wholesale deposits during the first quarter resulted in an \$8.3 million increase in net interest income and helped drive a 19 basis point increase in our net interest

margin compared to the fourth quarter. Loans grew by \$1.4 billion in the first quarter to an all-time high of \$24.4 billion. ***With the 25 basis point increase by the Federal Reserve in market rates occurring late in the quarter, the increase had a minimal impact on first quarter results.*** Total deposits decreased by \$1.8 billion driven by a decrease of \$1.5 billion in venture banking due to declines in capital market activity, along with the planned reduction in maturing wholesale deposits of \$0.5 billion, offset by deposit growth of \$180 million in community banking.”

31. On July 20, 2022, PacWest issued a press release announcing the Company’s Q2 2022 results. The press release quoted Defendant Wagner, stating, in relevant part:

“Our organic loan growth during the second quarter was exceptionally strong as we continued to see high demand from our clients. Loans grew by \$2.1 billion in the second quarter to an all-time high of \$26.5 billion. Given the high level of economic uncertainty and interest rate volatility, we are taking a cautious approach and expect slower loan growth in the second half of the year. On the deposits side, we continued to see net outflows in the venture banking business as private fundraising and capital market activities for late stage companies continues to be muted. With venture banking deposits down \$1.9 billion during the quarter, we used wholesale deposits to fund the loan growth, which increased deposit costs.”

32. On October 19, 2022, PacWest issued a press release announcing the Company’s Q3 2022 results. The press release quoted Defendant Wagner, stating, in relevant part:

“We are pleased with the growth in our capital ratios during the third quarter of 2022. The increases in the ratios were due to strong earnings, the credit-linked notes transaction completed in late September, and slower growth in loans and loan commitments. Capital remains a primary focus area and we are targeting a CET1 ratio of 10% by the end of 2023.”

“We were also pleased with the stabilization in venture banking deposits, which grew by \$129 million to \$12.2 billion, contributing to total deposits growing by \$228 million in the third quarter of 2022. After exceptionally strong loan growth in the first half of 2022, loan growth slowed in the third quarter of 2022 due to the expected impact from higher interest rates and our decision to slow loan growth as part of managing our balance sheet.”

33. On January 26, 2023, PacWest issued a press release announcing the Company’s Q4 and full year 2022 results. The press release quoted Defendant Wagner, stating, in relevant part:

“PacWest is a strong organization with extraordinary clients and has a talented and loyal team. Credit quality remains strong as evidenced by credit metrics such as nonperforming assets of 38 basis points and net charge-offs of four basis points for the quarter and two basis points for the year. *As we head into 2023, our priority is to refocus on core relationship-based community banking, which is expected to result in increased core deposits, increased capital ratios, and an improved efficiency ratio, and allow us to maintain our credit quality at the current favorable levels.*”

34. On January 27, 2023, PacWest hosted an earnings call with investors and analysts to discuss the Company’s Q4 and full year 2022 results (the “Q4 2022 Earnings Call”). During the scripted portion of the Q4 2022 Earnings Call, Defendant Taylor stated, in relevant part, “[t]here are real challenges ahead with rising interest rates and a slowing economy, but there is [. . .] a significant opportunity for PacWest to improve our performance and return to shareholders, given our strong team, a great customer base and a plan to unlock additional value for our shareholders and employees.”

35. On February 27, 2023, PacWest filed an Annual Report on Form 10-K with the SEC, reporting the Company's financial and operating results for the year ended December 31, 2022 (the "2022 10-K"). The 2022 10-K contained substantively similar descriptions of the Company's business overview and risk oversight and management as discussed, *supra*, in ¶¶ 27-28.

36. Appended to the 2022 10-K were signed certifications pursuant to SOX by Defendants Taylor and Thompson, attesting that "the information contained in the [2022 10-K] fairly presents, in all material respects, the financial condition and results of operations of the Company."

37. In early March 2023, regional banks Silvergate, SVB, Signature Bank, and First Republic failed in rapid succession, triggering a sharp decline in global bank stock prices and widespread depositor concerns.

38. Notwithstanding the bank failures, on March 10, 2023, PacWest issued a press release entitled "PacWest Bancorp Issues Updated Financial Figures; Reiterates Capital and Liquidity Strategy and Financial Position in Light of Industry Developments." The press release stated, in relevant part:

PacWest [. . .], a bank holding company with \$41 billion in assets, in light of recent industry events, updates the following financial (unaudited) information and reiterates its capital and liquidity strategy:

The Company's wholly-owned subsidiary, Pacific Western Bank (the "Bank"), is a diversified relationship-based commercial bank focused on providing business banking and treasury management services to small, middle-market, and

venture-backed businesses. The Bank has been, and continues to be, focused on strengthening our core relationship-based commercial bank, which we expect to result in stable core deposits, increased capital ratios, and an improved efficiency ratio, and will allow us to maintain our credit quality at favorable levels.

- ✓ We have a diversified deposit base that includes commercial, community banking, homeowners associations, retail, and venture deposits.
- ✓ As of 3/9/23, total deposits were \$33.2 billion compared with \$33.9 billion as of 12/31/22.
- ✓ *We have taken numerous strategic steps over the past four quarters to improve the balance sheet, including exiting non-core products, executing bond sales, a preferred stock offering, and a credit-linked notes transaction, and commenced a cost-reduction initiative designed to increase earnings.*
- ✓ Our risk-based capital ratios, including CET1, have been increasing for the past 3 quarters, including tier 1 risk-based capital ratio of 10.61%, which is well in excess of regulatory requirements, as of 12/31/22.
- ✓ Our liquidity position, with the following financial balances (unaudited) as of 3/9/23, is:
 - ✓ Cash held on balance sheet of approximately \$1.9 billion
 - ✓ Fully collateralized credit facility from the Federal Home Loan Bank of San Francisco of \$4.9 billion
 - ✓ Federal Reserve Discount Window availability of \$2.0 billion
 - ✓ Unpledged, liquid securities of approximately \$5.3 billion
 - ✓ Loan balances of \$28.3 billion, which are lower by \$384 million since year-end 2022, as the Bank executes on our

previously-announced strategy to slow loan growth and strengthen our balance sheet

- Asset quality remains excellent, and we have experienced no significant changes since year-end, including classified assets, non-performing assets, and charge-offs.

“Though the banking industry is experiencing significant volatility in light of recent events, we want to reiterate that Pacific Western Bank is a well-performing, well-diversified, full-service commercial bank with more than twenty years of history. We have been a proven partner to our customers through all economic cycles and are actively adapting in the current economic environment,” said [Defendant] Taylor[.]

39. On March 17, 2023, PacWest issued a press release entitled “Pacific Western Bank Issues End of Week Update” The press release stated, in relevant part:

[PWB] [. . .] today issued the following statement reaffirming its financial strength.

[PWB] continues to have solid liquidity, with over \$10.8 billion in available cash as of March 17, 2023. Available cash exceeds total uninsured deposits. Following the announcement of the [SVB] and Signature Bank closures, the bank experienced elevated net deposit outflows, concentrated primarily in our Venture Banking business line. Since Monday, March 13, 2023, net outflows have fallen sharply, with deposit balance fluctuations substantially stabilizing.

As of March 16, 2023, insured deposits exceed 62% of total deposits, including accounts eligible for pass-through insurance. Additionally, as of March 16, 2023, insured venture-specific deposits account for more than 77% of total venture deposits, including accounts eligible for pass-through insurance. *The bank continues to have a diversified deposit base that includes commercial, community banking, homeowners associations, retail, and venture deposits, with venture deposits*

representing approximately 25% of total deposits as of March 16, 2023.

As previously disclosed, our risk-based capital ratios, including CET1, have been increasing for the past three quarters, including a tier 1 risk-based capital ratio of 10.61%, which is well in excess of regulatory requirements, as of December 31, 2022. Additionally, asset quality remains excellent, and the bank has experienced no significant asset quality changes since year-end, including classified assets, non-performing assets, and charge-offs.

“After a challenging week, we are encouraged that much of the volatility seems to have calmed over the past several days. *We have taken numerous steps, including leveraging available collateral, over the past week to enhance and fortify our liquidity during this time. [PWB] remains a diversified bank prepared to continue delivering for our customers,*” stated [Defendant] Taylor[.]

40. On March 22, 2023, PacWest issued a press release issued a press release entitled “Pacific Western Bank Provides Further Update and Details on Financial Strength.” The press release stated, in relevant part:

[PWB] today issues the following update regarding its financial strength, including liquidity and deposits, as well as other recent developments. Financial information is unaudited.

Consistent with its announcement on March 17, 2023, the Bank continues to benefit from solid liquidity and stabilized deposit balances, with over \$11.4 billion in available cash as of March 20, 2023, which exceeds total uninsured deposits of \$9.5 billion as of March 20, 2023.

The Bank also continues to have a diversified deposit base that includes commercial, community banking, homeowners associations, retail, and venture customers.

“I am proud of the efforts the entire PacWest team has taken in these challenging times to enhance our liquidity and preserve franchise value,” said [Defendant]Taylor[.] “We have remained steadfast in our commitment to our customers and our communities, and we are grateful for their support and loyalty. As we look ahead, we have continued confidence in the strength of PacWest and are encouraged by the stability we have seen in our deposits and liquidity over the past week. Additionally, we continue to be encouraged by the clear message from government officials, regulatory agencies, and industry leaders, including Secretary Yellen’s recent remarks regarding the protection of smaller bank depositors. We look forward to continuing to sharpen our strategic focus, bolster our balance sheet, and be a proven partner to our customers.”

41. On April 25, 2023, PacWest issued a press release announcing the Company’s Q1 2023 results. The press release quoted Defendant Taylor, stating, in relevant part:

“Our strong banking franchise and our loyal, diversified customer base have driven us through one of the most challenging recent periods in the banking industry. Our deposits have stabilized with total insured deposits increasing from 48% of total deposits at year-end to 71% of total deposits at March 31, 2023. Importantly, deposits stabilized in the latter part of March and rebounded nicely in April, increasing approximately \$700 million subsequent to quarter-end. Moreover, in light of the recent events, management took immediate steps to maximize liquidity, including the exploration of strategic asset sales, which has led to the transfer of our \$2.7 billion Lender Finance loan portfolio to held for sale.”

“As we look forward, we continue to execute on our overall strategy, which includes managing the balance sheet around a stable and diversified funding mix, emphasizing our core business, preserving profitability with a strong asset base and reduced costs, and maintaining our capital and liquidity positions while prudently managing risks. We expect that our total assets will be closer to \$35 billion within the next

few months, after we complete certain asset sales and bring down liquidity to more normal levels. These actions will improve our liquidity position and are expected to increase our CET1 capital ratio to above 10%. We are also expediting our operational efficiency strategy to reduce facilities and vendors, optimize business processes, and execute on other cost savings across the business to improve our profitability. We will continue to prioritize our customer relationships, which have been the bedrock of our success for more than twenty years.”

42. The above statements identified in ¶¶ 27-36 and 38-41 were materially false and/or misleading and failed to disclose material adverse facts about the Company’s business, operations, and prospects. Specifically, Defendants failed to disclose to investors that: (i) PacWest had understated the impact of interest rate hikes on PWB, a smaller bank with excessive concentration in specific industries; (ii) accordingly, the Company had overstated the stability and/or sustainability of its deposit base; (iii) as a result, PacWest was exceptionally vulnerable to excessive deposit flows and/or a liquidity crisis; and (iv) as a result, Defendants’ public statements were materially false and/or misleading at all relevant times.

The Truth Begins to Emerge

43. On May 3, 2023, *Bloomberg* published an article entitled “Regional Banks Sink as PacWest Weighs Strategic Options.” The article stated, in relevant part:

PacWest Bancorp led a renewed slide in regional banks after a report that it’s weighing strategic options including a sale heightened concerns that the turmoil engulfing smaller lenders is far from over.

The Beverly Hills-based lender plunged as much as 60% in postmarket trading, while Western Alliance Bancorp fell as much as 38%. PacWest has been working with a financial adviser and has also been considering a breakup or a capital raise, according to people familiar with the matter.

The upheaval that has claimed multiple banks and erased more than 75% from PacWest's share price since early March is persisting, despite the lender reporting last month that deposits had stabilized. Federal Reserve Chair Jerome Powell said Wednesday that bank conditions had "broadly improved" since early March, though he noted that the sector's strains "appear to be resulting in even tighter credit conditions for households and businesses."

The sector has been under pressure as rising interest rates lowered the value of their longer-term investments while increasing the cost of funding and spurring depositors to move cash into higher-yielding money market funds.

First Republic Bank, acquired by JPMorgan Chase & Co. on Monday in a government-led deal, became the fourth US lender to collapse this year, following Silvergate Capital Corp., SVB Financial Group's Silicon Valley Bank and Signature Bank in March.

"This group faces huge earnings question marks going forward as funding and deposit costs rise alongside provisions just as the regulatory environment turns more stringent," Adam Crisafulli, analyst at Vital Knowledge, said in a note. "However, it's important to remember that Silicon Valley and First Republic were unique, and investors shouldn't simply extrapolate what happened to them to the whole regional landscape."

44. Shortly thereafter, *Forbes* published an article entitled "PacWest Stock Falls 39% After Federal Reserve's Latest Interest Rate Hike." The press release stated, in relevant part:

On May 2, PacWest stock fell 28%. May 3, its shares fell 60% after-hours following a Bloomberg report the bank was weighing “strategic options” — including putting itself up for sale.

In pre-market trading on May 4, its shares were down 38% — recovering after PacWest said its “cash and available liquidity” exceeded uninsured deposits.

Is the cascade of bank failures — bracketed by the March 10 collapse of Silicon Valley Bank and JPMorgan’s May 1 takeover of First Republic — over?

After the Federal Reserve Bank raised rates another 0.25 percentage points on May 3, I do not think so.

Higher interest rates intensify the spread of the latest bank failure virus that drives deposits out of vulnerable banks, tanks their stock prices, and ultimately prompts an FDIC-enabled rescue.

Look at four recent developments at PacWest — 18.24% of its float is sold short, according to the *Wall Street Journal*.

Additionally, interviews with financial industry experts suggest JPMorgan CEO Jamie Dimon’s comment that the bank’s First Republic rescue marked the end of the recent market turbulence will not inoculate the banking system from further consolidation.

Investors should consider whether PacWest — which said it added deposits since SVB failed and has not suffered “out-of-the-ordinary” deposit outflows since the First Republic rescue — will be able to find a buyer willing to shoulder its losses.

A post-SVB deposit drop

PacWest stock fell 17% on March 20 after it reported a 20% drop in deposits to \$27.1 billion between the end of 2022 and March 20 of this

year — largely from venture banking clients that accounted for 24% of its deposits that day, according to a press release.

PacWest raised nearly \$18 billion in financing in the wake of those deposit withdrawals. This included borrowing \$3.7 billion from the Federal Home Loan Bank System, \$10.5 billion from the Fed's discount window, \$2.1 billion from the Bank Term Funding Program as of March 20, and \$1.4 billion “from a financing facility from Apollo Global Management APO -1.9%-owned investment firm Atlas SP Partners,” noted Bloomberg.

A solid first quarter earnings report

PacWest's first quarter earnings report caused investors to cheer — sending its stock up 14% on April 25. According to MarketWatch, PacWest reported deposits increased \$1.1 billion between March 20 and March 31 and the bank added about \$700 million more in deposits as of April 24.

Meanwhile PacWest's adjusted earnings beat expectations while its net interest income fell short. Specifically, PacWest's adjusted earnings per share of 66 cents were a penny above the FactSet consensus, while its net interest income — revenue from loans less deposit and other funding costs — totaled \$279.3 million, about \$12 million below the consensus, *MarketWatch* reported.

JPMorgan's First Republic takeover

PacWest shares lost 28% of their value on May 2, the day after JPMorgan's First Republic takeover.

While *CNBC* could not offer an explanation for PacWest's plunge, one analyst suggested that the stock price is the market's way of signaling which bank is the next one to require a government-assisted rescue.

Chris Whalen, chair of Whalen Global Advisors, told the *Financial Times*, “They are going from the weakest bank to the weakest bank. And it's not just the short sellers but it's the customers as well asking if their deposits are safe. The market is focusing on the weakest links and looking for banks that are vulnerable.”

I am thinking that Whalen’s comment is a more measured version of what Calcanis tweeted about SVB in March.

PacWest is considering strategic options

Whalen’s comment seemed prescient after Bloomberg reported PacWest was considering strategic options — sending its stock down 60% in May 3 after-hours trading.

PacWest later issued a statement that staunched the plunge in its stock price — which traded down 38% in May 4 pre-market trading. “The bank has not experienced out-of-the-ordinary deposit flows following the sale of First Republic Bank and other news. Our cash and available liquidity remains solid and exceeded our uninsured deposits,” noted the statement.

Anonymous sources told *Bloomberg* PacWest has been considering a breakup or a capital raise. They said the bank is open to a sale and has not started a formal auction process. Meanwhile, the big loss an acquirer would incur to mark down the value of some PacWest loans makes it unlikely a buyer will emerge for the entire bank.

45. Following the publication of the *Bloomberg* and *Forbes* articles, PacWest’s stock price fell \$2.84 per share, or 44.17%, to close at \$3.59 per share on May 4, 2023.

46. Then, on May 11, 2023, PacWest disclosed in a Quarterly Report filed on Form 10-Q with the SEC that that it had lost a significant percentage of deposits after the publication of the *Bloomberg* report. Specifically, the Company stated, in relevant part:

Impact of First Republic Bank Closure and Sale

On May 1, 2023, First Republic Bank was closed by regulators and immediately sold to J.P. Morgan Chase. This event heightened

market and customer fears of additional bank failures, including PacWest. Our stock price declined approximately 41% from \$10.15 on April 28, 2023, to \$5.96 on May 5, 2023. On the afternoon of May 3, 2023, PacWest was featured prominently in the financial news headlines with reports that PacWest was “exploring all of its options and having talks with potential investors and partners”. The news headlines increased our customers fears of the safety of their deposits. *During the week ended May 5, 2023, our deposits declined approximately 9.5%, with a majority of that decline occurring on May 4th and May 5th after the news reports on the afternoon of May 3rd.* PacWest funded this decline in deposits with available on-balance sheet liquidity. As of May 10, 2023, immediately-available liquidity (on-balance sheet liquidity and unused borrowing capacity) was \$15.0 billion, which exceeded uninsured deposits of \$5.2 billion, representing a coverage ratio of 288%.

47. On this news, PacWest’s stock price fell \$1.38 per share, or 22.77%, to close at \$4.68 per share on May 11, 2023.

48. Finally, on July 25, 2023, it was announced that PacWest had entered into an agreement to be purchased by Banc of California. Under the terms of the agreement, PacWest stockholders were to receive 0.6569 of a share of Banc of California common stock for each share of PacWest common stock.

PLAINTIFF’S CLASS ACTION ALLEGATIONS

49. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a class, consisting of all persons and entities that purchased or otherwise acquired PacWest securities during the Class Period, and who were damaged thereby (the “Class”). Excluded from the Class are Defendants, the officers and directors of the Company, at all relevant times,

members of their immediate families and their legal representatives, heirs, successors, or assigns, and any entity in which Defendants have or had a controlling interest.

50. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, PacWest's shares actively traded on the NASDAQ. While the exact number of Class members is unknown to Plaintiff at this time and can only be ascertained through appropriate discovery, Plaintiff believes that there are at least hundreds or thousands of members in the proposed Class. Millions of PacWest shares were traded publicly during the Class Period on the NASDAQ. Record owners and other members of the Class may be identified from records maintained by PacWest or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

51. Plaintiff's claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by Defendants' wrongful conduct in violation of federal law that is complained of herein.

52. Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class and securities litigation.

53. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

(a) whether the federal securities laws were violated by Defendants' acts as alleged herein;

(b) whether statements made by Defendants to the investing public during the Class Period omitted and/or misrepresented material facts about the business, operations, and prospects of PacWest; and

(c) to what extent the members of the Class have sustained damages and the proper measure of damages.

54. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation makes it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

UNDISCLOSED ADVERSE FACTS

55. The market for PacWest's securities was open, well-developed, and efficient at all relevant times. As a result of these materially false and/or misleading statements, and/or failures to disclose, PacWest's securities traded at artificially inflated prices during the Class Period. Plaintiff and other members of the Class

purchased or otherwise acquired PacWest's securities relying upon the integrity of the market price of the Company's securities and market information relating to PacWest, and have been damaged thereby.

56. During the Class Period, Defendants materially misled the investing public, thereby inflating the price of PacWest's securities, by publicly issuing false and/or misleading statements and/or omitting to disclose material facts necessary to make Defendants' statements, as set forth herein, not false and/or misleading. The statements and omissions were materially false and/or misleading because they failed to disclose material adverse information and/or misrepresented the truth about PacWest's business, operations, and prospects as alleged herein.

57. At all relevant times, the material misrepresentations and omissions particularized in this Complaint directly or proximately caused or were a substantial contributing cause of the damages sustained by Plaintiff and other members of the Class. As described herein, during the Class Period, Defendants made or caused to be made a series of materially false and/or misleading statements about PacWest's financial well-being and prospects. These material misstatements and/or omissions had the cause and effect of creating in the market an unrealistically positive assessment of the Company and its financial well-being and prospects, thus causing the Company's securities to be overvalued and artificially inflated at all relevant times. Defendants' materially false and/or misleading statements during the Class

Period resulted in Plaintiff and other members of the Class purchasing the Company's securities at artificially inflated prices, thus causing the damages complained of herein when the truth was revealed.

LOSS CAUSATION

58. Defendants' wrongful conduct, as alleged herein, directly and proximately caused the economic loss suffered by Plaintiff and the Class.

59. During the Class Period, Plaintiff and the Class purchased PacWest's securities at artificially inflated prices and were damaged thereby. The price of the Company's securities significantly declined when the misrepresentations made to the market, and/or the information alleged herein to have been concealed from the market, and/or the effects thereof, were revealed, causing investors' losses.

SCIENTER ALLEGATIONS

60. As alleged herein, Defendants acted with scienter since Defendants knew that the public documents and statements issued or disseminated in the name of the Company were materially false and/or misleading; knew that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws. As set forth elsewhere herein in detail, the Individual Defendants, by virtue of their receipt of information reflecting the true facts regarding PacWest, their control over, and/or receipt and/or modification of PacWest's allegedly

materially misleading misstatements and/or their associations with the Company which made them privy to confidential proprietary information concerning PacWest, participated in the fraudulent scheme alleged herein.

**APPLICABILITY OF PRESUMPTION OF RELIANCE
(FRAUD-ON-THE-MARKET DOCTRINE)**

61. The market for PacWest's securities was open, well-developed, and efficient at all relevant times. As a result of the materially false and/or misleading statements and/or failures to disclose, PacWest's securities traded at artificially inflated prices during the Class Period. Plaintiff and other members of the Class purchased or otherwise acquired the Company's securities relying upon the integrity of the market price of PacWest's securities and market information relating to PacWest, and have been damaged thereby.

62. During the Class Period, the artificial inflation of PacWest's shares was caused by the material misrepresentations and/or omissions particularized in this Complaint causing the damages sustained by Plaintiff and other members of the Class. As described herein, during the Class Period, Defendants made or caused to be made a series of materially false and/or misleading statements about PacWest's business, prospects, and operations. These material misstatements and/or omissions created an unrealistically positive assessment of PacWest and its business, operations, and prospects, thus causing the price of the Company's securities to be artificially inflated at all relevant times, and when disclosed,

negatively affected the value of the Company's shares. Defendants' materially false and/or misleading statements during the Class Period resulted in Plaintiff and other members of the Class purchasing the Company's securities at such artificially inflated prices, and each of them has been damaged as a result.

63. At all relevant times, the market for PacWest's securities was an efficient market for the following reasons, among others:

(a) PacWest's shares met the requirements for listing and were listed and actively traded on the NASDAQ, a highly efficient and automated market;

(b) As a regulated issuer, PacWest filed periodic public reports with the SEC and/or the NASDAQ;

(c) PacWest regularly communicated with public investors via established market communication mechanisms, including through regular dissemination of press releases on the national circuits of major newswire services and through other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services; and/or

(d) PacWest was followed by securities analysts employed by brokerage firms who wrote reports about the Company, and these reports were distributed to the sales force and certain customers of their respective brokerage

firms. Each of these reports was publicly available and entered the public marketplace.

64. As a result of the foregoing, the market for PacWest's securities promptly digested current information regarding PacWest from all publicly available sources and reflected such information in PacWest's share price. Under these circumstances, all purchasers of PacWest's securities during the Class Period suffered similar injury through their purchase of PacWest's securities at artificially inflated prices and a presumption of reliance applies.

65. A Class-wide presumption of reliance is also appropriate in this action under the Supreme Court's holding in *Affiliated Ute Citizens of Utah v. United States*, 406 U.S. 128 (1972), because the Class's claims are, in large part, grounded on Defendants' material misstatements and/or omissions. Because this action involves Defendants' failure to disclose material adverse information regarding the Company's business, operations, and financial prospects—information that Defendants were obligated to disclose—positive proof of reliance is not a prerequisite to recovery. All that is necessary is that the facts withheld be material in the sense that a reasonable investor might have considered them important in making investment decisions. Given the importance of the Class Period material misstatements and omissions set forth above, that requirement is satisfied here.

NO SAFE HARBOR

66. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this Complaint. The statements alleged to be false and misleading herein all relate to then-existing facts and conditions. In addition, to the extent certain of the statements alleged to be false may be characterized as forward looking, they were not identified as “forward-looking statements” when made and there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. In the alternative, to the extent that the statutory safe harbor is determined to apply to any forward-looking statements pleaded herein, Defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements was made, the speaker had actual knowledge that the forward-looking statement was materially false or misleading, and/or the forward-looking statement was authorized or approved by an executive officer of PacWest who knew that the statement was false when made.

COUNT I

(Violations of Section 10(b) of the Exchange Act and Rule 10b-5 Promulgated Thereunder Against All Defendants)

67. Plaintiff repeats and re-alleges each and every allegation contained above as if fully set forth herein.

68. During the Class Period, Defendants carried out a plan, scheme, and course of conduct which was intended to and, throughout the Class Period, did: (i) deceive the investing public, including Plaintiff and other Class members, as alleged herein; and (ii) cause Plaintiff and other members of the Class to purchase PacWest's securities at artificially inflated prices. In furtherance of this unlawful scheme, plan, and course of conduct, Defendants, and each defendant, took the actions set forth herein.

69. Defendants: (i) employed devices, schemes, and artifices to defraud; (ii) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not misleading; and (iii) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of the Company's securities in an effort to maintain artificially high market prices for PacWest's securities in violation of Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder. All Defendants are sued either as primary participants in the wrongful and illegal conduct charged herein or as controlling persons as alleged below.

70. Defendants, individually and in concert, directly and indirectly, by the use, means, or instrumentalities of interstate commerce, and/or of the mails, engaged and participated in a continuous course of conduct to conceal adverse

material information about PacWest's financial well-being and prospects, as specified herein.

71. Defendants employed devices, schemes, and artifices to defraud while in possession of material adverse non-public information and engaged in acts, practices, and a course of conduct as alleged herein in an effort to assure investors of PacWest's value and performance and continued substantial growth, which included the making of, or the participation in the making of, untrue statements of material facts and/or omitting to state material facts necessary in order to make the statements made about PacWest and its business operations and future prospects in light of the circumstances under which they were made, not misleading, as set forth more particularly herein, and engaged in transactions, practices, and a course of business which operated as a fraud and deceit upon the purchasers of the Company's securities during the Class Period.

72. Each of the Individual Defendants' primary liability and controlling person liability arises from the following facts: (i) the Individual Defendants were high-level executives and/or directors at the Company during the Class Period and members of the Company's management team, or had control thereof; (ii) each of these Defendants, by virtue of their responsibilities and activities as a senior officer and/or director of the Company, was privy to and participated in the creation, development and reporting of the Company's internal budgets, plans, projections,

and/or reports; (iii) each of these Defendants enjoyed significant personal contact and familiarity with the other Defendants and was advised of, and had access to, other members of the Company's management team, internal reports and other data and information about the Company's finances, operations, and sales at all relevant times; and (iv) each of these Defendants were aware of the Company's dissemination of information to the investing public which they knew and/or recklessly disregarded was materially false and misleading.

73. Defendants had actual knowledge of the misrepresentations and/or omissions of material facts set forth herein, or acted with reckless disregard for the truth in that they failed to ascertain and to disclose such facts, even though such facts were available to them. Such defendants' material misrepresentations and/or omissions were done knowingly or recklessly and for the purpose and effect of concealing PacWest's financial well-being and prospects from the investing public and supporting the artificially inflated price of its securities. As demonstrated by Defendants' overstatements and/or misstatements of the Company's business, operations, financial well-being, and prospects throughout the Class Period, Defendants, if they did not have actual knowledge of the misrepresentations and/or omissions alleged, were reckless in failing to obtain such knowledge by deliberately refraining from taking those steps necessary to discover whether those statements were false or misleading.

74. As a result of the dissemination of the materially false and/or misleading information and/or failure to disclose material facts, as set forth above, the market price of PacWest's securities was artificially inflated during the Class Period. In ignorance of the fact that market prices of the Company's securities were artificially inflated, and relying directly or indirectly on the false and misleading statements made by Defendants, or upon the integrity of the market in which the securities trade, and/or in the absence of material adverse information that was known to or recklessly disregarded by Defendants, but not disclosed in public statements by Defendants during the Class Period, Plaintiff and the other members of the Class acquired PacWest's securities during the Class Period at artificially high prices and were damaged thereby.

75. At the time of said misrepresentations and/or omissions, Plaintiff and other members of the Class were ignorant of their falsity and believed them to be true. Had Plaintiff and the other members of the Class and the marketplace known the truth regarding the problems that PacWest was experiencing, which were not disclosed by Defendants, Plaintiff and other members of the Class would not have purchased or otherwise acquired their PacWest securities, or, if they had acquired such securities during the Class Period, they would not have done so at the artificially inflated prices which they paid.

76. By virtue of the foregoing, Defendants violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder.

77. As a direct and proximate result of Defendants' wrongful conduct, Plaintiff and the other members of the Class suffered damages in connection with their respective purchases and sales of the Company's securities during the Class Period.

COUNT II

(Violations of Section 20(a) of the Exchange Act Against the Individual Defendants)

78. Plaintiff repeats and re-alleges each and every allegation contained above as if fully set forth herein.

79. The Individual Defendants acted as controlling persons of PacWest within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of their high-level positions and their ownership and contractual rights, participation in, and/or awareness of the Company's operations and intimate knowledge of the false financial statements filed by the Company with the SEC and disseminated to the investing public, the Individual Defendants had the power to influence and control and did influence and control, directly or indirectly, the decision-making of the Company, including the content and dissemination of the various statements which Plaintiff contends are false and misleading. The Individual Defendants were provided with or had unlimited access to copies of the

Company's reports, press releases, public filings, and other statements alleged by Plaintiff to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

80. In particular, the Individual Defendants had direct and supervisory involvement in the day-to-day operations of the Company and, therefore, had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

81. As set forth above, Defendants each violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder by their acts and omissions as alleged in this Complaint. By virtue of their position as controlling persons, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of Defendants' wrongful conduct, Plaintiff and other members of the Class suffered damages in connection with their purchases of the Company's securities during the Class Period.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff prays for relief and judgment, as follows:

A. Determining that this action is a proper class action under Rule 23 of the Federal Rules of Civil Procedure;

B. Awarding compensatory damages in favor of Plaintiff and the other Class members against all Defendants, jointly and severally, for all damages

sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

C. Awarding Plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

D. Such other and further relief as the Court may deem just and proper.

DEMAND FOR TRIAL BY JURY

Plaintiff hereby demands a trial by jury.