STRATEGIC HOTELS & RESORTS, INC
Form DEF 14A
April 09, 2010

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934, as amended

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2))

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material under Rule 14a-12

Strategic Hotels & Resorts, Inc.

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement if other than Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.
Title of each class of securities to which transaction applies:

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¨ Fee paid previously with preliminary materials.

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Amount Previously Paid:

Form, Schedule or Registration Statement No.:

Filing Party:

Date Filed:

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200 W. Madison Street

Suite 1700

Chicago, Illinois 60606

April 9, 2010

Dear Stockholder:

You are cordially invited to attend the 2010 annual meeting of stockholders of Strategic Hotels & Resorts, Inc., which will be held at 10:00 a.m., Central Time, on Thursday, May 27, 2010, at the Fairmont Chicago, Millennium Park, 200 N. Columbus Drive, Chicago, Illinois 60601. At the annual meeting, stockholders will be asked to elect directors, ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for 2010 and act upon such other business as may properly come before the meeting, all as described in the attached notice of annual meeting of stockholders and proxy statement.

This year, we will again be using the Notice and Access method of providing proxy materials to you via the internet. We believe that this process provides you with a convenient and quick way to access your proxy materials and vote your shares, while allowing us to conserve natural resources and reduce the costs of printing and distributing the proxy materials. On or about April 9, 2010, we will mail to our stockholders a Notice of Meeting and of Internet Availability of Proxy Materials containing instructions on how to access our proxy statement and our 2009 annual report and vote electronically via the internet. The Notice also contains instructions on how to receive a paper copy of your proxy materials.

It is important that your shares be represented at the meeting and voted in accordance with your wishes. Whether or not you plan to attend the meeting, we urge you to authorize your proxy electronically via the internet or by telephone, or, if you requested paper copies of the proxy materials, please complete, sign, date and return the accompanying proxy in the enclosed postage-paid envelope as promptly as possible so that your shares will be voted at the annual meeting. This will not limit your right to vote in person or to attend the meeting.

Sincerely,

/s/ William A. Prezant
William A. Prezant
Chairman of the Board

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200 W. Madison Street

Suite 1700

Chicago, Illinois 60606

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

May 27, 2010

To our Stockholders:

The annual meeting of stockholders of Strategic Hotels & Resorts, Inc., a Maryland corporation (the Company), will be held at the Fairmont Chicago, Millennium Park, 200 N. Columbus Drive, Chicago, Illinois 60601 on Thursday, May 27, 2010, at 10:00 a.m., Central Time, for the following purposes:

1) To elect nine directors to serve until our next annual meeting of stockholders and until such directors successors are duly elected and qualify;

2) To consider and vote upon the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2010; and

3) To transact such other business as may properly come before the annual meeting or any postponement or adjournment thereof.

Only stockholders of record at the close of business on March 18, 2010, the record date for the annual meeting, will be entitled to notice of and to vote at the annual meeting.

Whether or not you expect to be present at the meeting, we urge you to authorize your proxy electronically via the internet or by telephone or by completing and returning the proxy card if you requested paper proxy materials. Voting instructions are provided in the Notice of Meeting and of Internet Availability of Proxy Materials (the Notice), or, if you requested printed materials, the instructions are printed on your proxy card and included in the accompanying proxy statement. Any person giving a proxy has the power to revoke it at any time prior to the meeting and stockholders who are present at the meeting may withdraw their proxies and vote in person.

By Order of the Board of Directors

/s/ Paula C. Maggio
Paula C. Maggio, Secretary

Chicago, Illinois

April 9, 2010

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STRATEGIC HOTELS & RESORTS, INC.

200 W. Madison Street

Suite 1700

Chicago, Illinois 60606

PROXY STATEMENT

FOR

2010 ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON MAY 27, 2010

This proxy statement is being furnished by and on behalf of our Board of Directors (the Board) in connection with the solicitation of proxies to be voted at the 2010 annual meeting of stockholders. The date, time and place of the annual meeting are:

Date:	May 27, 2010
Time:	10:00 a.m., Central Time
Place:	Fairmont Chicago, Millennium Park 200 N. Columbus Drive, Chicago, Illinois 60601

At the annual meeting, stockholders will be asked to:

Elect the following nominees as our directors to serve until our next annual meeting of stockholders and until such directors successors are duly elected and qualify: Robert P. Bowen, Kenneth Fisher, Raymond L. Gellein, Jr., Laurence S. Geller, James A. Jeffs, Richard D. Kincaid, Sir David M.C. Michels, William A. Prezant and Eugene F. Reilly (Proposal 1);

Consider and vote upon the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm, referred to herein as our independent auditors, for the fiscal year ending December 31, 2010 (Proposal 2); and

Transact such other business as may properly come before the annual meeting or any adjournment or postponement thereof.

Our principal offices are located at 200 W. Madison Street, Suite 1700, Chicago, Illinois 60606, and our telephone number is (312) 658-5000.

The Notice, this proxy statement and the enclosed proxy card, and our 2009 annual report will be available on April 9, 2010 to stockholders of record as of the close of business on March 18, 2010.

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GENERAL INFORMATION ABOUT THE MEETING

In this section of the proxy statement, we answer some common questions regarding the annual meeting and the voting of shares at the annual meeting.

Where and when will the annual meeting be held?

The date, time and place of the annual meeting are:

May 27, 2010

10:00 a.m. (Central Time)

Fairmont Chicago, Millennium Park

200 N. Columbus Drive

Chicago, Illinois 60601

Why did I receive a notice in the mail regarding the internet availability of proxy materials instead of a paper copy of proxy materials?

The United States Securities and Exchange Commission (the SEC) has approved Notice and Access rules relating to the delivery of proxy materials over the internet. These rules permit us to furnish proxy materials, including this proxy statement and our annual report, to our stockholders by providing access to such documents on the internet instead of mailing printed copies. Most stockholders will not receive printed copies of the proxy materials unless they request them. Instead, the Notice, which was mailed to our stockholders, will provide notice of the annual meeting and instruct you as to how you may access and review all of the proxy materials on the internet or by telephone. The Notice also instructs you as to how you may submit your proxy on the internet or by telephone. If you would like to receive a paper or email copy of our proxy materials, you should follow the instructions for requesting such materials in the Notice. Any request to receive proxy materials by mail or email will remain in effect until you revoke it.

Can I vote my shares by filling out and returning the Notice?

No. The Notice identifies the items to be voted on at the annual meeting, but you cannot vote by marking the Notice and returning it. The Notice provides instructions on how to authorize your proxy by internet or by telephone, by requesting and returning a paper proxy card, or by submitting a ballot in person at the meeting.

Why did you send me the Notice?

We sent you the Notice regarding this proxy statement because we are holding our 2010 annual meeting of stockholders and our Board is asking for your proxy to vote your shares at the annual meeting. We have summarized information in this proxy statement that you should consider in deciding how to vote at the annual meeting. You do not have to attend the annual meeting in order to have your shares voted. Instead, you may simply authorize a proxy to vote your shares electronically via the internet or by telephone or by completing and returning the proxy card if you requested paper proxy materials. Voting instructions are provided in the Notice, or, if you requested printed materials, the instructions are printed on your proxy card and included in the accompanying proxy statement.

Who can vote?

You can vote your shares of common stock if our records show that you were the owner of the shares as of the close of business on March 18, 2010, the record date for determining the stockholders who are entitled to vote at the annual meeting. As of March 18, 2010, there were a total of 75,349,854 shares of common stock outstanding and entitled to vote at the annual meeting. You get one vote for each share of common stock that you own.

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How are votes counted?

We will hold the annual meeting if stockholders representing the required quorum of shares of common stock entitled to vote either authorize their proxy online or telephonically, sign and return their proxy cards or attend the annual meeting. A majority of the shares of common stock entitled to vote at the annual meeting and present in person or by proxy constitutes a quorum. If you authorize your proxy online or telephonically or sign and return your proxy card, your shares will be counted to determine whether we have a quorum even if you abstain or fail to indicate your vote on the proxy card.

If you abstain or withhold votes for purposes of the vote on the election of directors or the ratification of the appointment of Deloitte & Touche LLP as our independent auditors, your abstention or withheld votes will not be counted as votes cast and will have no effect on the result of such votes.

What is the required vote for approval?

The election of each of our nominees for director requires a plurality of the votes cast at the annual meeting and the ratification of the appointment of Deloitte & Touche LLP as our independent auditors requires a majority of the votes cast at the annual meeting on such matters.

How do I vote by proxy?

Follow the instructions on the Notice to authorize a proxy to vote your shares electronically via the internet or by telephone or by completing and returning the proxy card if you requested paper proxy materials to vote on the matters to be considered at the annual meeting. The individuals named and designated as proxies will vote your shares as you instruct. You have the following choices in completing your voting:

- You may vote on each proposal, in which case your shares will be voted in accordance with your choices.
- In voting on directors, you can either vote FOR all directors or withhold your vote or abstain from voting on all or certain directors specified by you.
- You may abstain from voting on the proposal to ratify the appointment of Deloitte & Touche LLP as our independent auditors, in which case no vote will be recorded.
- You may return a signed proxy card without indicating your vote on any matter, in which case the designated proxies will vote to elect all nine nominees as directors, and ratify the appointment of Deloitte & Touche LLP as our independent auditors.

How can I authorize my proxy online or via telephone?

In order to authorize your proxy online or via telephone, go to www.proxyvote.com or call the toll-free number reflected on the Notice, and follow the instructions. Please have your Notice in hand when accessing the site, as it contains a 12-digit control number required for access. You can authorize your proxy via the internet or by telephone at any time prior to 11:59 p.m. Eastern Time, May 26, 2010, the day before the annual meeting.

If you requested paper proxy materials, you may also refer to the enclosed proxy card for instructions. If you choose not to authorize your proxy electronically, please complete and return the paper proxy card in the pre-addressed, postage-paid envelope provided.

What if other matters come up at the annual meeting?

The only matters we now know of that will be voted on at the annual meeting include the proposals we have described in this proxy statement: the election of nine directors and the proposal to ratify the appointment of Deloitte & Touche LLP as our independent auditors for 2010. If other matters are properly presented at the annual meeting, the designated proxies will vote your shares in their discretion.

Can I change my previously authorized vote?

Yes. At any time before the vote on a proposal, you can change your vote either by executing or authorizing, dating, and delivering to us a new proxy via the internet, telephone or mail prior to the annual meeting, by giving us a written notice revoking your proxy card or by attending the annual meeting and voting your shares in person. Your attendance at the annual meeting will not, by itself, revoke a proxy previously given by you. We will honor the latest dated proxy.

Proxy revocation notices or new proxy cards should be sent to Strategic Hotels & Resorts, Inc., 200 W. Madison Street, Suite 1700, Chicago, Illinois 60606, Attention: Secretary.

Can I vote in person at the annual meeting rather than by authorizing a proxy?

Although we encourage you to authorize your proxy to ensure that your vote is counted, you can attend the annual meeting and vote your shares in person even if you authorized your proxy electronically or telephonically or submitted a proxy card.

Will my shares be voted if I do not provide my proxy?

Depending on the proposal, your shares may be voted if they are held in the name of a brokerage firm, even if you do not provide the brokerage firm with voting instructions. Brokerage firms have the authority under the New York Stock Exchange (the NYSE) rules to cast votes on certain routine matters if they do not receive instructions from their customers. The proposal to ratify the appointment of Deloitte & Touche LLP as our independent auditors is considered a routine matter for which brokerage firms may vote shares without receiving voting instructions. Brokerage firms do not have the authority under the NYSE rules to vote on non-routine matters. The election of directors is a non-routine matter. If you do not provide the brokerage firm with voting instructions on this proposal, your shares will not be voted on and are called broker non-votes.

What do I do if my shares are held in street name ?

If your shares are held in the name of your broker, a bank or other nominee in street name, that party will give you instructions for voting your shares. If your shares are held in street name and you would like to vote your shares in person at the annual meeting, you must contact your broker, bank or other nominee to obtain a proxy form from the record holder of your shares.

Who will count the votes?

Representatives of Broadridge Financial Services, Inc. will count the votes and will serve as the independent inspector of election.

Who pays for proxy solicitation?

We do. In addition to sending you these materials, some of our employees or agents may contact you by telephone, by mail, or in person. None of our employees will receive any extra compensation for doing this. We may engage an outside firm to solicit votes and the cost to us of engaging such a firm is estimated to be $10,000 plus reasonable out-of-pocket expenses.

If you have additional questions about this proxy statement or the meeting or would like additional copies of this document or our annual report on Form 10-K for the year ended December 31, 2009, without charge, please contact: Secretary, Strategic Hotels & Resorts, Inc., 200 W. Madison Street, Suite 1700, Chicago, Illinois 60606, (312) 658-5000.

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PROPOSAL 1

ELECTION OF DIRECTORS

Board of Directors

There are currently nine directors on our Board. Nine nominees are proposed for election as directors at the annual meeting to hold office until our next annual meeting of stockholders and until their successors are duly elected and qualify. All nine nominees currently serve on our Board.

All of the nominees are willing to serve as directors, but if any of them should decline or be unable to act as a director, the individuals designated in the proxy cards as proxies will exercise the discretionary authority provided to vote for the election of substitute nominee selected by our Board, unless the Board alternatively acts to reduce the size of the Board or maintain a vacancy on the Board in accordance with our bylaws. The Board has no reason to believe that any such nominees will be unable or unwilling to serve.

In determining the independence of our directors, our Board considered transactions, relationships and arrangements between each director or any member of his immediate family and the Company and its subsidiaries and affiliates. Our Board has determined that Robert P. Bowen, Kenneth Fisher, Raymond L. Gellein, Jr., James A. Jeffs, Richard D. Kincaid, William A. Prezant and Eugene F. Reilly are independent under the criteria for independence set forth in the listing standards of the NYSE, and therefore, upon the election of all nine nominees, we will continue to meet the NYSE requirement for a majority of independent directors serving on the Board.

Nominees for Election as Directors

The names, ages as of March 18, 2010, and existing positions of the nominees are as follows:

Name	Age	Office or Position Held	Director Since
William A. Prezant	63	Chairman of the Board of Directors	2006
Robert P. Bowen	68	Director	2004
Kenneth Fisher	51	Director	2007
Raymond L. Gellein, Jr.	62	Director	2009
Laurence S. Geller	62	Director, President and Chief Executive Officer	2004
James A. Jeffs	57	Director	2006
Richard D. Kincaid	48	Director	2009
Sir David M.C. Michels	63	Director	2006
Eugene F. Reilly	48	Director	2009

William A. Prezant

William A. Prezant is a partner in the law firm Prezant & Mollath, and has practiced law in California since 1972 and in Nevada since 1982. He serves on the Board of Directors of Forward Management (a financial services company), and You Technologies, Inc. (a digital marketing and biometric patent portfolio). Mr. Prezant s community activities include serving on the California/Nevada Advisory Board for the Wilderness Society and the Advisory Council of the Nevada Museum of Art. Mr. Prezant holds a Bachelor of Arts Degree from the University of Southern California and a Juris Doctorate from Georgetown Law Center.

We believe Mr. Prezant s qualifications to sit on our Board include his almost four decades of experience as an attorney and businessman, and his expertise in corporate governance.

Robert P. Bowen

Robert P. Bowen retired as a Partner of Arthur Andersen LLP in 1999. From 1980 to 1998, he was partner-in-charge of the audit practice of Arthur Andersen s Memphis and Little Rock offices. For more than

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25 years, he specialized in the hospitality and entertainment industry and was a member of Arthur Andersen s worldwide hospitality industry team. Mr. Bowen joined Arthur Andersen in 1968 after receiving his Master of Business Administration degree from Emory University. Mr. Bowen served as a director of Gaylord Entertainment Company (NYSE: GET) from 2003 to 2007 and as a director of Equity Inns, Inc. (NYSE: ENN) from 2004 to 2007.

We believe Mr. Bowen s qualifications to sit on our Board include his extensive experience with public companies and financial accounting matters for hospitality companies.

Kenneth Fisher

Kenneth Fisher has been a senior partner in Fisher Brothers, a New York City commercial real estate firm, since April 2003, and was a partner of Fisher Brothers from 1991 to April 2003. Mr. Fisher has been the chairman and Chief Executive Officer of Fisher House Foundation, Inc., a not-for-profit organization that constructs homes for families of hospitalized military personnel and veterans since May 2003 and served as vice chairman of Fisher House Foundation from May 2001 to May 2003. Mr. Fisher is a 29-year veteran of the real estate community. Mr. Fisher also is a member of the executive committee of the City Investment Fund, LP, a real estate investment fund, and a member of the executive committee of the Real Estate Board of New York s Board of Governors. In 2007, Mr. Fisher was appointed to the President s Commission on Care for America s Returning Wounded Warriors. Mr. Fisher also served on the Board of Directors of Realogy Corporation from 2006 to 2007.

We believe Mr. Fisher s qualifications to sit on our Board include his extensive knowledge of the real estate industry.

Raymond L. Gellein, Jr.

Raymond L. Gellein, Jr., resigned from Starwood Hotels and Resorts Worldwide (Starwood) in March 2008 where he held the position of President, Global Development Group from July, 2006 through March, 2008. In this position, Mr. Gellein had overall management responsibility for the full range of Starwood s global real estate-related functions. Prior to his position as President, Global Development Group, Mr. Gellein served as Chairman and Chief Executive Officer of Starwood Vacation Ownership, Inc., the vacation ownership division of Starwood Hotels & Resorts Worldwide, Inc. from 1999 through July, 2006. Mr. Gellein served as a director of Starwood Vacation Ownership Inc. from 1999 to 2008. Mr. Gellein was formerly Chairman and Co-Chief Executive Officer of Vistana, Inc. (NYSE: VSTN) (Vistana), a public vacation ownership company acquired by Starwood in 1999. He joined Vistana in 1980 and was instrumental in leading the company s development, the sale of the company in 1986, re-acquiring the assets of the Vistana entities from General Development Corporation in 1991 and launching a successful initial public offering of Vistana in 1997. Mr. Gellein holds an MBA in Finance, Accounting and Marketing from Northwestern University s Kellogg School of Management (1974), as well as a Bachelor of Arts majoring in Psychology from Denison University (1969). Mr. Gellein has served as a board member of the Florida Chapter of Junior Achievement, the Roy E. Crummer Graduate School of Business at Rollins College and served as the Chairman of the American Resort Development Association (ARDA). Mr. Gellein is currently serving as an advisor to the ARDA board and the ARDA executive committee. He also currently serves on the board of directors of the Mind and Life Institute headquartered in Boulder, Colorado.

We believe Mr. Gellein s qualifications to sit on our Board include his extensive experience as a Chief Executive Officer of a publicly-traded hospitality company and as a senior executive of a major multi-national publicly-traded lodging company.

Laurence S. Geller

Laurence S. Geller has served as the President and Chief Executive Officer and a director of the Company since the Company s initial public offering in 2004. In 1997, Mr. Geller founded Strategic Hotel Capital, L.L.C.

and served as its Chief Executive Officer and as a director. Prior to founding Strategic Hotel Capital, L.L.C., Mr. Geller was Chairman and Chief Executive Officer of Geller & Co., a gaming, tourism and lodging advisory company he founded in 1989. Geller & Co. specialized in domestic and international hotel, corporate and real estate development, financing and structuring. Previously, Mr. Geller held positions as Executive Vice President and Chief Operating Officer of Hyatt Development Corporation, Senior Vice President of Holiday Inns, Inc. and Director of Grand Metropolitan Hotels in London. Mr. Geller is a former Vice Chairman of the Urban Land Institute s Commercial and Retail Council and has held the position of Chairman of the Industry Real Estate Financing Advisory Council of the American Hotel and Lodging Association. Mr. Geller serves on the boards of NAREIT, Children s Memorial Hospital (where he serves as a member of its physical facilities sub-committee), and the American Jewish Committee (where he serves as a member of the National Leadership Council). He also serves on the President s Council of the Midwest Region of the U.S. Fund for UNICEF. Mr. Geller is Chair of The Churchill Centre and serves on its Executive Committee. Mr. Geller is Ambassador for North America for the Hotel and Catering Institutional Management Association of the U.K. Mr. Geller is a graduate of Ealing Technical College s school of hotel management and catering. Mr. Geller previously served on the Board of Directors of Gaylord Entertainment (NYSE: GET) from 2002 until July 2006. Mr. Geller has over 40 years of experience in the lodging industry and has received numerous awards for his service to the lodging industry and for his civic and philanthropic endeavors.

We believe Mr. Geller s qualifications to sit on our Board include his 12 years as a founder and Chief Executive Officer of our company and its predecessor and his four decades of experience in the lodging industry.

James A. Jeffs

James A. Jeffs has served as the Director and Executive Co-Chairman of Max Petroleum Plc, a company listed on both the London Stock Exchange and the Frankfurt Stock Exchange since October, 2005. Mr. Jeffs is a director of South Oil Company and was also a director of Magnum Oil, both based in Russia. Mr. Jeffs has served since 1994 as Managing Director and Chief Investment Officer of The Whittier Trust Company, a trust and investment management company headquartered in South Pasadena, CA. Mr. Jeffs was the former Chairman of the Board of Directors of Whittier Energy Corporation, an oil and gas exploration and production company headquartered in Houston, Texas and listed on the NASDAQ. Previously, Mr. Jeffs was Chairman of the Board, Co-Chairman and Chief Executive Officer of Chaparral Resources, Inc. Mr. Jeffs was Chief Investment Officer and Senior Vice President of Trust Services of America from 1988 to 1992, and also President and Chief Executive Officer of TSA Capital Management. Mr. Jeffs also has served on the board of investments of The Los Angeles County Employees Retirement Association.

We believe Mr. Jeffs qualifications to sit on our Board include his years of executive leadership and his expertise in business, investments, management and corporate strategy.

Richard D. Kincaid

Richard D. Kincaid has served as the President and Founder of the BeCause Foundation, a nonprofit corporation that heightens awareness about a number of complex social problems and promotes change through the power of film since May, 2007. Mr. Kincaid is also an active private investor in early stage companies. Until its acquisition by the Blackstone Group in February of 2007, Mr. Kincaid was the president and Chief Executive Officer of Equity Office Properties Trust (NYSE: EOP) (EOP), the largest publicly-traded office REIT and owner of office buildings in the United States with revenues of approximately $3.3 billion and a total capitalization of approximately $30 billion. Prior to being named President and Chief Executive Officer of EOP in 2003, Mr. Kincaid served as EOP s Executive Vice President and Chief Operating Officer. Mr. Kincaid has also served as EOP s Executive Vice President and Chief Financial Officer. Prior to joining EOP in 1995, Mr. Kincaid was Senior Vice President of Finance for Equity Group Investments, Inc. Prior to joining Equity Group Investments, Inc. in 1990, Mr. Kincaid held positions with Barclays Bank PLC and The First National Bank of Chicago. Mr. Kincaid is on the Board of Directors of Rayonier Inc. (NYSE: RYN), an international

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REIT that specializes in timber and specialty fibers. He also serves on the Board of Directors of Vail Resorts (NYSE: MTN), a mountain resort operator. From October 2002 to February of 2007, Mr. Kincaid served as a Director of EOP. Mr. Kincaid received his master s degree in business administration from the University of Texas, and his bachelor s degree from Wichita State University.

We believe Mr. Kincaid s qualifications to sit on our Board include his experience as a former Chief Executive Officer of a real estate investment trust and his expertise in financial, corporate planning and strategy.

Sir David M.C. Michels

Sir David M.C. Michels currently serves as the Deputy Chairman and Senior Independent Director of Marks & Spencer Plc. and easyJet plc. Sir David sits on the Board of Directors of Jumeirah Hotels and is Chairman of Paramount Restaurants. From June 2000 until February 2006, Sir David was Chief Executive Officer of Hilton Group Plc and from April 1999 to May 2000 he was Chief Executive Officer of Hilton International. Sir David was a Non-Executive Director of Hilton Hotels Corporation from November 2000 to December 2005. He served as Chief Executive Officer of Stakis Plc from May 1991 to March 1999. Sir David has spent 37 years in the leisure industry, primarily in hotels.

We believe Sir David Michels qualifications to sit on our Board include his experience as a former Chief Executive Officer of a publicly-traded hospitality company, his experience as a member of the board of multiple public companies and his vast knowledge of the lodging industry.

Eugene F. Reilly

Eugene Reilly is President, The Americas for AMB Property Corporation (AMB). In this capacity, Mr. Reilly is responsible for AMB s business in the United States, Canada and Latin America. Mr. Reilly joined AMB in 2003 and has 26 years of experience in the development, acquisition, disposition, financing and leasing of industrial properties throughout the Americas. Prior to joining AMB, Mr. Reilly was Chief Investment Officer of Cabot Properties, Inc., a private equity industrial real estate firm in which he served as a founding partner and member of its Investment Committee and Board of Directors. Mr. Reilly served with Cabot and its predecessor companies, including the NYSE-traded Cabot Industrial Trust, for 11 years. He has served on the Board of Directors of Grupo Acción, S.A. de C.V., a leading development company in Mexico. Mr. Reilly is a member of the National Association of Industrial and Office Parks (NAIOP) where he is currently Secretary and serves on the NAIOP National Board of Directors and Executive Committee. He has served on the Board of Directors of the Massachusetts chapter of the NAIOP and the National Industrial Education Committee. He holds an A.B. in Economics from Harvard College.

We believe Mr. Reilly s qualifications to sit on our Board include his experience as a senior executive of a publicly-traded real estate investment trust, his experience as a real estate investor and his expertise in corporate planning and strategy.

Vote Required; Recommendation

The election of a director to the Board requires the affirmative vote of a plurality of the votes cast at the annual meeting. **Our Board unanimously recommends that you vote for the election of all nine nominees named above.**

Board of Directors; Leadership Structure and Risk Assessment

We separate the roles of CEO and Chairman of the Board. The Board has determined that having an independent director serve as Chairman of the Board is in the best interest of stockholders at this time. This structure ensures a greater role for the independent directors in the oversight of the Company. This leadership structure also is preferred by a significant number of the Company s stockholders.

The Board is actively involved in oversight of risks that could affect the Company. The Board regularly reviews information regarding the Company s operations, indebtedness and liquidity, as well as risks associated with each. The oversight is also conducted through committees of the Board, as disclosed in the descriptions of each of the committees and in the charters of each of the committees, but the Board has retained responsibility for general oversight of risks.

Board of Directors; Committees

Our Board is currently comprised of Messrs. William A. Prezant, Robert P. Bowen, Kenneth Fisher, Raymond L. Gellein, Jr., Laurence S. Geller, James A. Jeffs, Richard D. Kincaid, Sir David M.C. Michels and Eugene F. Reilly.

Our Board conducts its business through meetings of the Board, actions taken by written consent in lieu of meetings and by the actions of its committees. During the fiscal year ended December 31, 2009, the Board held ten meetings and acted by unanimous written consent five times. During fiscal year 2009, each incumbent director attended at least 75% of the aggregate number of meetings of the Board and the committees of the Board on which he served while he was a member of the Board or such committees. Our corporate governance guidelines provide that the non-management directors shall designate the director who will preside at each executive session of the Board and the method by which employees, stockholders or other interested parties can communicate directly with the non-management directors. Our Board meets in executive session no fewer than four times each year during its regularly scheduled quarterly meetings.

The Board currently has four standing committees: an audit committee, a compensation committee, a corporate governance and nominating committee and an executive committee.

Audit Committee. The purposes of the audit committee are described in the audit committee charter and include, among other things:

- assisting with Board oversight of (i) the integrity of our financial statements, (ii) our compliance with legal and regulatory requirements, (iii) the independent auditors qualifications and independence, and (iv) the performance of the independent auditors and our internal audit function; and

- preparing an audit committee report as required by the Securities and Exchange Commission, or SEC, for inclusion in our annual proxy statement.

The audit committee also is actively involved in oversight of risks that could affect the Company. The risks reviewed on an annual basis include risks of fraud as well as general risks facing the Company. The Company s internal audit department conducts an annual risk assessment and also an annual anti-fraud risk assessment by working with key members of management to identify key risks and mitigating factors in each area. The Company s internal audit department reports the results of risks identified and corresponding mitigating activities to the audit committee on an annual basis. The audit committee reports such findings and factors to the full Board.

The audit committee is currently comprised of Messrs. Bowen, Fisher, Jeffs, Kincaid and Prezant, with Mr. Bowen serving as the audit committee s chairman. The audit committee charter is available on our website at www.strategichotels.com. A copy of our audit committee charter is also available free of charge, upon request directed to Secretary, Strategic Hotels & Resorts, Inc., 200 W. Madison Street, Suite 1700, Chicago, Illinois 60606.

The Board has determined that each audit committee member has no material relationship with the Company and meets the independence criteria and has the qualifications set forth in the listing standards of the NYSE and Rule 10A-3 under the Securities Exchange Act of 1934, as amended, or the Exchange Act. The Board has determined that each audit committee member has sufficient knowledge in financial and auditing matters to

serve on the audit committee. The Board has determined that Mr. Bowen is qualified as an audit committee financial expert within the meaning of Item 407(d)(5) of Regulation S-K under the Exchange Act and has determined that Messrs. Bowen, Fisher, Jeffs, Kincaid and Prezant have the accounting and related financial management expertise within the meaning of the listing standards of the NYSE. Our audit committee met eight times during fiscal year 2009 and did not act by unanimous written consent in performing its functions.

Our Board has adopted procedures for reporting concerns under our code of business conduct and ethics and other company policies, including complaints regarding accounting and auditing matters in accordance with Rule 10A-3 under the Exchange Act. The full text of these procedures is attached as an addendum to our code of business conduct and ethics which is available on our corporate website at www.strategichotels.com. A copy of our Code of Business Conduct is also available, free of charge, upon request directed to Secretary, Strategic Hotels & Resorts, Inc., 200 West Madison Street, Suite 1700, Chicago, Illinois, 60606.

Compensation Committee. The compensation committee s primary duties are described in the compensation committee charter and include, among other things:

- reviewing and approving corporate goals and objectives relevant to the compensation of the Company s Chief Executive Officer (the CEO), evaluating our CEO s performance in light of those goals and objectives and determining and approving the CEO s compensation level based on this evaluation;

- reviewing and approving compensation for executive officers other than our CEO, incentive-compensation and equity-based plans and programs, including the Company s Amended and Restated 2004 Incentive Plan (the 2004 Incentive Plan), making or authorizing awards under such plans and programs, overseeing the activities of the individuals and committees responsible for administering these plans and programs, and discharging any responsibilities imposed on the compensation committee by any of these plans or programs;

- approving any new equity compensation plan or any material change to an existing plan where stockholder approval has not been obtained;

- in consultation with management, overseeing regulatory compliance with respect to compensation matters;

- reviewing and approving severance or similar termination payments proposed to be made to any of our executive officers;

- preparing a report for inclusion in our proxy statement for our annual meeting;

- preparing and issuing an evaluation of the compensation committee;

- reporting to our Board on a regular basis, and not less than once per year; and

- performing any other duties or responsibilities expressly delegated to the compensation committee by the Board from time to time relating to our compensation programs.

The compensation committee has the resources and authority appropriate to discharge its duties and responsibilities, including the authority to select, retain, terminate, and approve the fees and other retention terms of special counsel or other experts or consultants, as it deems appropriate, without seeking approval of the Board or management. The authority to retain compensation consultants to assist in the evaluation of CEO or senior executive compensation is vested in the compensation committee.

The compensation committee is responsible for monitoring any risks relating to employment policies and the Company s compensation and benefits systems. To assist in satisfying these oversight responsibilities, the committee has retained its own compensation consultant when considering certain changes to the compensation program and also meets regularly with management to understand the financial and human resources implications of compensation decisions being made.

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The compensation committee may, in its discretion, delegate all or a portion of its duties and responsibilities to a subcommittee of the compensation committee or any director or directors. Without limitation on the foregoing, the compensation committee may delegate the approval of certain transactions to a subcommittee consisting solely of members of the compensation committee who are (i) Non-Employee Directors for the purposes of Rule 16b-3 under the Exchange Act and (ii) outside directors for the purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code.

The compensation committee is currently composed of Messrs. Gellein, Jeffs, Kincaid and Reilly, with Mr. Jeffs serving as the compensation committee s chairman. All compensation committee members meet the independence criteria set forth in the listing standards of the NYSE. Our compensation committee met seven times during 2009 and acted by unanimous written consent one time.

The compensation committee charter is available on our website at www.strategichotels.com. A copy of our compensation committee charter is also available free of charge, upon request directed to Secretary, Strategic Hotels & Resorts, Inc., 200 W. Madison Street, Suite 1700, Chicago, Illinois 60606.

Corporate Governance and Nominating Committee. The corporate governance and nominating committee s primary purpose and responsibilities are described in the corporate governance and nominating committee charter and include, among other things:

- identifying individuals qualified to become members of our Board and recommending director candidates for election or re-election to our Board;
- considering and making recommendations to our Board regarding board size and composition, committee composition; and
- developing and recommending to our Board a set of corporate governance principles, and reviewing those principles at least once a year.

The corporate governance and nominating committee is currently comprised of Messrs. Bowen, Fisher and Prezant, with Mr. Prezant serving as the corporate governance and nominating committee s chairperson. All corporate governance and nominating committee members meet the independence criteria set forth in the listing standards of the NYSE. Our corporate governance and nominating committee met six times during fiscal year 2009 and did not act by unanimous written consent in performing its functions.

The corporate governance and nominating committee charter is available on our website at www.strategichotels.com. A copy of our corporate governance and nominating committee charter is also available free of charge, upon request directed to Secretary, Strategic Hotels & Resorts, Inc., 200 W. Madison Street, Suite 1700, Chicago, Illinois 60606.

Written communications submitted by stockholders pursuant to our stockholder communications policy regarding recommending the nomination of a person to be a member of our Board, will be forwarded to the chair of the corporate governance and nominating committee for consideration. Stockholders may recommend director nominees for consideration by the corporate governance and nominating committee by submitting the names and the following supporting information to our Secretary at: Secretary, Stockholder Nominations, Strategic Hotels & Resorts, Inc., 200 W. Madison Street, Suite 1700, Chicago, Illinois 60606. The submissions should include a current resume and curriculum vitae of the candidate and a statement describing the candidate s qualifications and contact information for personal and professional references. The submission should also include the name and address of the stockholder who is submitting the nominee, the number of shares which are owned of record or beneficially by the submitting stockholder and a description of all arrangements or understandings between the submitting stockholder and the candidate. The corporate governance and nominating committee will consider director candidates who have been identified by other directors or our stockholders but has no obligation to recommend such candidates for nomination except as may be required by contractual obligation of the Company.

In selecting or recommending candidates for selection to our Board, including nominees recommended by stockholders, the corporate governance and nominating committee shall take into consideration the following criteria, which are set forth in our corporate governance guidelines, and such other factors as the corporate governance and nominating committee deems appropriate:

- personal qualities and characteristics, accomplishments and reputation in the business community;
- current knowledge and contacts in the communities in which we do business and in our industry or other industries relevant to our business;
- ability and willingness to commit adequate time to Board and committee matters;
- the fit of the individual s skills and personality with those of other directors and potential directors in building a Board that is effective, collegial and responsive to our needs; and
- diversity of viewpoints, background, experience and other demographics.

While the corporate governance and nominating committee has not adopted a formal diversity policy with regard to the selection of director nominees, diversity is one of the factors that it considers in identifying nominees. As part of this process, the corporate governance and nominating committee evaluates how a particular candidate s perspectives, knowledge, experience and expertise in substantive matters relating to the Company s business may add value to the Board.

The corporate governance and nominating committee is authorized, in its sole discretion, to engage outside search firms and consultants to assist with the process of identifying and qualifying candidates and has the authority to negotiate the fees and terms of such retention. In 2009, the Board added three new members: Messrs. Gellein, Kincaid and Reilly. Neither the corporate governance and nominating committee nor the Board retained a search firm as a part of the process and no fees were paid to any third parties to identify, evaluate or assist in identifying or evaluating potential nominees. Mr. Kincaid s nomination was recommended to the corporate governance and nominating committee by one of the Company s stakeholders. Messrs. Gellein and Reilly were nominees recommended to the corporate governance and nominating committee by Mr. Geller.

Executive Committee. The executive committee s primary purpose and responsibilities are to act on behalf and in the place of our Board in the management of our business and affairs upon express delegation by our Board. The executive committee is currently comprised of Messrs. Bowen, Geller, Jeffs and Prezant, with Mr. Prezant serving as the executive committee s chairperson. Our executive committee met one time during fiscal year 2009 and did not act by unanimous written consent in performing its functions.

Corporate Governance

Code of Business Conduct and Ethics. We have adopted a written code of ethics that applies to our directors, officers and employees, including our principal executive officer, principal financial officer and principal accounting officer. This code of business conduct and ethics is designed to comply with SEC regulations and NYSE listing standards related to codes of conduct and ethics and is posted on our corporate website at www.strategichotels.com. A copy of our code of business conduct and ethics is also available free of charge, upon request directed to Secretary, Strategic Hotels & Resorts, Inc., 200 W. Madison Street, Suite 1700, Chicago, Illinois 60606.

Corporate Governance Guidelines. We have also adopted written corporate governance guidelines to advance the functioning of our Board and its committees and to set forth our Board s expectations as to how it should perform its functions. Our corporate governance guidelines are posted on our corporate website at www.strategichotels.com. A copy of our corporate governance guidelines is also available free of charge, upon request directed to Secretary, Strategic Hotels & Resorts, Inc., 200 W. Madison Street, Suite 1700, Chicago, Illinois 60606.

Stockholder Communications Policy. We have adopted procedures for employees, stockholders and other interested parties to communicate their concerns regarding accounting, internal accounting controls or auditing matters to the audit committee and other matters to non-management directors or our Board as a group. Our code of business conduct and ethics requires employees to report such concerns.

All such concerns may be communicated to the Secretary by written correspondence directed to Secretary, Strategic Hotels & Resorts, Inc., 200 W. Madison Street, Suite 1700, Chicago, Illinois 60606.

Employees, stockholders and other interested parties may communicate concerns regarding questionable accounting or auditing matters to the Secretary on a confidential and anonymous basis. The Secretary will distribute (i) all communications regarding accounting, internal accounting controls or auditing matters to the audit committee prior to each meeting of the audit committee, (ii) all other communications to non-management directors prior to each executive session of non-management directors and (iii) all communications to our entire Board prior to the next scheduled meeting of our Board. If it is unclear whether a communication involves accounting or auditing matters or if it involves both accounting or auditing matters and other matters, the Secretary will direct such communication to both the audit committee and non-management directors, with a note to that effect. In each case (and except as the audit committee or non-management directors may otherwise request), the Secretary will provide original copies or records of all communications. However, depending on the length and number of communications received, the Secretary may provide only a summary of the communications along with the original copy or record of any communications deemed particularly important. The original copies or records of all communications will be available to the Board or appropriate committee thereof, if applicable, upon request. The Secretary will maintain a log of each communication received, the date such communication was distributed to the audit committee, non-management directors or Board (and to which of these it was distributed) and whether it was distributed in summary or original form.

The Board or appropriate committee thereof, if applicable, will determine whether any action or response is necessary or appropriate in respect of a communication. If so, they will take or direct such action as they deem appropriate. Such action may include engaging outside advisers, for which funding will be available. The determinations in respect of each communication and any further action taken will be recorded in the log maintained by the Secretary. These determinations may be recorded based on standard categories, which may include: the communication is misdirected (such as a communication involving only an employment dispute); no further action required, because the communication can be analyzed on its face; and further action required (with a record of the action taken and its outcome). The Secretary or any other person designated by the audit committee or non-management directors will report on the status of any further action directed by the audit committee or non-management directors on a quarterly basis.

The full text of the stockholder communications policy is available on our corporate website at www.strategichotels.com. A copy of our stockholder communications policy is also available free of charge, upon request directed to Secretary, Strategic Hotels & Resorts, Inc., 200 W. Madison Street, Suite 1700, Chicago, Illinois 60606.

Director Attendance at Annual Meeting of Stockholders. We do not have a formal policy regarding attendance by directors at our annual meeting of stockholders but invite and encourage all directors to attend. We make every effort to schedule our annual meeting of stockholders at a time and date to permit attendance by directors, taking into account the directors schedules and the timing requirements of applicable law. At the Company s last annual meeting, which was held on May 21, 2009, six of our seven directors up for election attended in person. Mr. Kincaid was unable to attend the Company s annual meeting, as he had joined our Board after the meeting date had been determined and had a previously scheduled annual meeting related to another Board on which he sits.

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Compensation Committee Interlocks and Insider Participation

From January 1, 2009 to January 28, 2009, the compensation committee of the Board was comprised of Messrs. Brennan, Coppola, Jeffs and Prezant. From January 29, 2009 to June 4, 2009, the compensation committee was comprised of Messrs. Brennan, Fisher, Kincaid and Jeffs. From June 5, 2009 to November 17, 2009, the compensation committee of the Board was comprised of Messrs. Fisher, Kincaid and Jeffs. From November 18, 2009 to December 31, 2009, the compensation committee of the Board was comprised of Messrs. Gellein, Jeffs, Kincaid and Reilly. None of the members of the Board who sat on the compensation committee in 2009 was employed by us as an officer or employee during or prior to 2009. No compensation committee member had any interlocking relationships requiring disclosure under applicable rules and regulations.

For a description of certain relationships and transactions with members of our Board or their affiliates, see Transactions With Related Persons beginning on page 42.

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EXECUTIVE COMPENSATION

Executive Officers

The following sets forth, as of March 18, 2010, the positions, ages and selected biographical information for our executive officers who are not directors and for Ms. Morefield, who is not an executive officer as of March 18, 2010, but has agreed to join the Company as Executive Vice President, Chief Financial Officer, as of April 12, 2010:

Diane M. Morefield

Diane M. Morefield, age 51, is expected to become the Company s Executive Vice President, Chief Financial Officer effective April 12, 2010. From December 2009 to March of 2010, Ms. Morefield served as a Senior Consultant at CTS Holdings, Inc., a business advisory and project management firm. From November 2007 through June 2009, Ms. Morefield served as chief financial officer of Equity International, a privately-held investment company focused exclusively on real estate related businesses operating outside of the United States. During this time, Ms. Morefield was responsible for financial reporting, investor relations, portfolio management, treasury and was actively involved in significant capital raising. From April 2007 through October 2007, Ms. Morefield served as chief financial officer of Joseph Freed & Associates, LLC, a family owned, privately-held real estate development and operating company specializing in retail, residential and mixed-use projects. From July 1997 to September 2006, Ms. Morefield was employed by Equity Office Properties Trust (NYSE: EOP) (EOP), the largest publicly-traded office REIT and owner of office buildings in the United States with revenues of approximately $3.3 billion and a total capitalization of approximately $30 billion. Her last position was Regional Senior Vice President for the company s Midwest region where she was responsible for the overall business strategy, financial performance, operations, management and leasing activity for the region with total revenues of over $450 million, a portfolio size of 19.5 million square feet and over 300 employees. Prior to this role, Ms. Morefield was Senior Vice President Investor Relations at EOP and responsible for all investor and public relations at the company. Ms. Morefield is a member of the Leadership Greater Chicago Fellows Program (Class of 2006), and in May 2003 completed the Northwestern University Kellogg School of Management: Women s Board Director Development Program. Ms. Morefield received a Masters in Business Administration from The University of Chicago and a Bachelors of Science in Accountancy from The University of Illinois. She is a Certified Public Accountant.

Richard J. Moreau

Richard J. Moreau, age 63, has served as the Company s Executive Vice President Asset Management since 2005. Mr. Moreau previously served as the Company s Vice President Asset Management from 1997 to 2003 and Senior Vice President Asset Management from 2003 until 2005. Mr. Moreau is responsible for the asset management of all our properties. Mr. Moreau has been in the hospitality industry for over 30 years in both property and multi-unit operation positions. From 1992 until he joined us in November 1997, Mr. Moreau was a principal in Gremor Hospitality, a hotel asset management company. From 1988 until 1992, he was a principal and Executive Vice President at Inn America Corporation, an independent hotel management company. He was responsible for the day-to-day operations of 22 full service hotels and resorts operating under franchise agreements with Hilton, Sheraton and Holiday Inn. From 1985 until 1988, he was a Vice President of Operations for Hyatt Hotels and Resorts, where he was responsible for the development and implementation of all pre-opening and operating procedures for six prototype Hyatt hotels. From 1972 to 1985, Mr. Moreau worked for The Howard Johnson Company.

Paula C. Maggio

Paula C. Maggio, age 41, is the Company s Senior Vice President, Secretary and General Counsel, and has been responsible for oversight of the Company s legal affairs since 2004. Ms. Maggio played a critical role in the Company s initial public offering in 2004 and has subsequently executed a number of significant transactions for

the Company. From 2004 to 2007, Ms. Maggio served as the Company s Vice President, Secretary and General Counsel. Upon joining the company s predecessor in December, 2000 and through May, 2004, Ms. Maggio acted as Vice President, Assistant Secretary and Associate General Counsel. Prior to joining the Company s predecessor, Ms. Maggio practiced law with Altheimer & Gray, where she focused primarily on real estate and hospitality law. Ms. Maggio received a Bachelor of Arts and Juris Doctor, cum laude, from the University of Illinois in 1991 and 1994, respectively.

Stephen M. Briggs

Stephen M. Briggs, age 51, is the Company s Senior Vice President, Chief Accounting Officer. Mr. Briggs previously served as the Company s Vice President, Controller and Principal Accounting Officer from 2007 until February 2009. Prior to joining the Company in 2007, Mr. Briggs served as the Senior Vice President Asset Strategy/Strategic Planning of Equity Office Properties Trust (NYSE: EOP) (EOP), the largest publicly-traded office REIT and owner of office buildings in the United States with revenues of approximately $3.3 billion and a total capitalization of approximately $30 billion, where he provided strategic direction and leadership to the accounting, tax, financial reporting, regional finance, lease administration and financial modeling functions. His responsibilities included all external and internal financial reporting, including SEC reporting, federal and local income tax compliance, reporting to EOP s audit committee and Sarbanes-Oxley compliance and coordination with external auditors of quarterly and annual audit processes. Prior to that, Mr. Briggs held positions at EOP as Senior Vice President Chief Accounting Officer (2000-2004); Senior Vice President Financial Reporting and Accounting (1999); Vice President Financial Reporting and Accounting (1996-1999) and Vice President Property Accounting (1993-1996). He was formerly a Vice President at VMS Realty Partners and an Auditor at Deloitte, Haskins & Sells. Mr. Briggs is a Certified Public Accountant and is a member of Best Financial Practices Council of the National Association of Real Estate Investment Trust.

Compensation Discussion and Analysis

I. Overview

This Compensation Discussion and Analysis describes the compensation policies and arrangements that are applicable to the CEO and Chief Financial Officer (the CFO), as well as the other executive officers included in the summary compensation table under 2009 Summary Compensation Table on page 28, who are all referred to as named executive officers (the NEOs) as such term is defined in Item 402(a) of Regulation S-K.

II. Compensation Philosophy & Objectives

The compensation committee has three primary objectives for our compensation program:

- Provide overall levels of compensation that are competitive in order to attract and motivate highly qualified, experienced executives to continue to enhance the interests of the Company and build long-term stockholder value;
- Provide annual and long-term incentives that emphasize performance-based compensation, contingent upon achieving company and individual performance goals; and
- Create a stockholder value-oriented mentality through the executive compensation programs by having a meaningful portion of compensation comprised of equity-based incentives.

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To achieve its objectives, the compensation committee has established a compensation program for NEOs consisting of base salary, annual bonus awards and our long-term incentive (the LTI Program). Pay opportunities for specific individuals vary based on a number of factors such as scope of duties, tenure, institutional knowledge and/or difficulty in recruiting a new executive.

As an executive s level of responsibility increases, a greater proportion of his or her total compensation is based on the annual and long-term performance-based incentive compensation and less on base salary. The level and structure of these performance-based incentive elements reflects our variable pay-for-performance philosophy.

III. Establishing the Compensation Program

To assist the compensation committee in meeting its objectives, the compensation committee may engage an outside executive compensation consulting firm to review the key elements of our compensation programs, base pay, annual incentives and long-term incentives, as well as its structure, including design and performance measurements.

In 2009, the compensation committee engaged Vivient Consulting (Vivient) to make recommendations regarding plan design for Mr. Geller s compensation program, as well as the LTI Program for key executives. The peer group utilized by Vivient in performing its analysis was established by the compensation committee and Vivient in 2007 and included hotel companies and REITs of similar size or business strategy. The peer group utilized included:

Ashford Hospitality Trust, Inc.

Choice Hotels International, Inc.

FelCor Lodging Trust, Inc.

Gaylord Entertainment

LaSalle Hotel Properties, Inc.

Morgans Hotel Group Co.

Sunstone Hotel Investors, Inc.

Taubman Centers, Inc.

Vail Resorts, Inc.

Ventas, Inc.

Wyndham Worldwide

The compensation committee meets with Mr. Geller to discuss his own compensation package, but ultimately decisions regarding his package are made solely based upon the compensation committee s deliberations, with input from its compensation consultant from time to time. Decisions regarding other executives are made by the compensation committee considering recommendations from Mr. Geller.

Other than with respect to evaluating and recommending the terms of Mr. Geller s amended and restated employment agreement as compared to our peers, and in determining Ms. Maggio s base salary increase, the compensation committee did not use peer group information as extensively as it had in prior years because of the significant deterioration in the economy and the market conditions affecting the Company.

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IV. Compensation Structure

A. Pay Elements Overview

The three main components of compensation are:

- *Base Salary*
- *Annual Bonus*
- *LTI Program*

B. Pay Elements Details

(1) Base Salary

Base salaries are set with regard to the position within the Company and the individual s current and sustained performance results. The base salary levels for each NEO are reviewed annually by the compensation committee. In setting base salaries, the compensation committee may consider:

- competitive market and peer group data specific to an executive s position;
- individual performance assessments, as made by the compensation committee for Mr. Geller, and by Mr. Geller for the other NEOs, against goals established for the prior year by the specific individual or the management team collectively;
- expected future contributions;
- job responsibility; and
- Company performance.

There is no specific weighting applied to any one factor in setting the level of base salary, and the process ultimately relies on the subjective exercise of the compensation committee s judgment.

Based on the foregoing, in February 2010, the compensation committee increased the base salary of Ms. Maggio from $250,000 to $275,000 related to 2009 performance and in light of data specific to her position from the peer group established by Vivient and the 2009 Compensation Survey published by the National Association of Real Estate Investment Trusts (NAREIT). The compensation committee did not increase the base salaries of the remainder of the NEOs in 2010 related to 2009 performance or peer group data, on the premise that their existing salary levels were reasonable and appropriate.

(2) Annual Bonus Awards

Our annual bonus award program provides our NEOs the opportunity to receive cash bonus awards. In 2009, the annual bonus program included a Company financial component and a discretionary component. The financial component was weighted as 50% of target bonus for Mr. Geller

and 25% of target bonus for the other NEOs. We selected this different weighting because Mr. Geller is ultimately accountable, as our CEO, for the Company s financial performance, and accordingly, a greater percentage of his bonus should be more heavily weighted towards our results.
In 2009, the metric for the financial component was EBITDA (as hereinafter defined) results against budgeted EBITDA . For computational purposes, EBITDA represents net income or loss attributable to the Company s common stockholders excluding: (i) interest expense, (ii) income taxes, including deferred income tax benefits and expenses applicable to our foreign subsidiaries and income taxes applicable to sale of assets; and (iii) depreciation and amortization. EBITDA also excludes interest expense, income taxes and depreciation and amortization of our equity method investments, the effect of realizing deferred gains on our sale leasebacks, as well as the effect of gains or losses on sales of assets, early extinguishment of debt, impairment losses, foreign currency gains or losses and other non-recurring charges.

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The discretionary component was weighted at 50% of target bonus for Mr. Geller and 75% of target bonus for other NEOs.

Mr. Geller. Pursuant to his amended and restated employment agreement described under Employment Agreements and Potential Post-Termination Payments Laurence S. Geller Employment Agreement beginning on page 32, Mr. Geller s annual target incentive was 100% of base salary, or $750,000. For 2009, the annual bonus award was weighted 50% on the Company s financial performance and 50% at the discretion of the compensation committee. For 2009, budgeted EBITDA was $116.8 million. Adjusted budgeted EBITDA, to take into consideration the sale of Four Seasons Mexico City hotel, was $116.2 million. If the Company earned 90% of budgeted EBITDA, Mr. Geller was entitled to a threshold bonus of 50% of the financial component, or $187,500. If the Company earned 107.5% or more of budgeted EBITDA, Mr. Geller was entitled to a bonus of 200% of the target for the 50% financial component, or $750,000.

For the discretionary component, the target was $375,000. On the discretionary component of Mr. Geller s bonus, the compensation committee and Mr. Geller established that it would be evaluated based on Mr. Geller s success in improving the Company s balance sheet. The compensation committee considered the following items in evaluating balance sheet improvement: asset sales and use of proceeds thereof, joint ventures or equity issuances to provide liquidity, buying back stock or debt at discount; debt reduction; loan modifications and debt covenant compliance. The compensation committee also reviewed Mr. Geller against the Company-wide business objectives described below. The compensation committee s subjective determination of the discretionary component did not assign any specific weighting to the various objectives or other considerations.

Other NEOs. For the other NEOs, the 2009 target annual incentives were 75% of base salary for Mr. Mead and Mr. Moreau, or $315,000 and $243,750, respectively, and 60% of base salary for Ms. Maggio and Mr. Briggs, or $150,000 and $136,200 respectively. Of the target annual incentive award, 25% was weighted on Company financial performance and 75% was at the discretion of the compensation committee. For 2009, the Company financial performance portion of the bonus plan was based on EBITDA achievement against budgeted EBITDA. Budgeted EBITDA for 2009 was $116.8 million. Adjusted budgeted EBITDA, taking into consideration the sale of Four Seasons Mexico City hotel, was $116.2 million.

The goals with respect to annual bonus awards are established at three separate levels threshold, target and maximum. In 2009, to earn a threshold bonus on the Company component of the bonus, EBITDA was required to be at 90% of budget. If results were less than 90% of budgeted EBITDA, the NEOs would not be entitled to an award based on Company achievement of financial goals unless the compensation committee made a special determination otherwise. In 2009, to earn a maximum pay-out on the Company performance component of the bonus, EBITDA was required to be at least 107.5% of budgeted EBITDA.

For the discretionary component of the bonus for the other NEOs, the compensation committee considered the following in its subjective determination of the appropriate amount earned: personal performance, stock price and assessment of Company business performance. In considering Company business performance the compensation committee focused on the Company-wide objectives established by management and the Board in the first quarter of 2009. The objectives were to (i) outperform certain industry metrics, (ii) continue cost containment programs, (iii) reduce corporate overhead to $22.3 million, excluding one-time charges, (iv) conserve liquidity, (v) consummate certain asset sales, (vi) reduce land risk in Mexico and (vii) amend the Company s credit facility. Additionally, the compensation committee evaluated other criteria, such as the importance and value of certain amendments to hotel management agreements and the Company s financial results. The compensation committee s subjective determination on the discretionary component did not assign any specific weighting to the various objectives or other considerations.

Bonuses are paid in the first quarter of each year for the prior year s performance once the compensation committee has had the opportunity to assess individual performance accomplishments and Company performance as a whole.

2009 Bonuses. For 2009, actual company EBITDA, as reported in 2010, was $120 million. Consequently, actual financial performance was 103.2% of budgeted EBITDA as adjusted for the sale of the Four Seasons Mexico City. Mr. Geller earned 143% of target for the financial component of the 2009 bonus and the other NEOs earned 121% of target for the financial component of the 2009 bonus.

After its subjective assessment of Company and personal performance, the compensation committee determined that the appropriate pay-out for bonuses, in total, should be approximately 82% of the targeted bonus amounts. The compensation committee considered the achievement of management against the objectives established earlier in the year and considered that the objectives overall were primarily met; however, in light of the Company s financial and stock price performance, the compensation committee approved a less than target award on the discretionary component of the bonuses to ensure less than target pay-out on bonuses, in the aggregate. The actual pay-outs on the discretionary components were 21% of target for Mr. Geller and 69% of target for the other NEOs with this percentage differential reflecting Mr. Geller s greater accountability for Company-wide performance. The 2009 bonuses, paid in March 2010 are as shown on the table set forth below:

Name	Target Bonus	EBITDA vs. Budget	2009 Cash Bonus Discretionary	Total 2009 Cash Bonus
Laurence S. Geller	$ 750,000	$ 535,000[(1)]	$ 80,000[(2)]	$ 615,000
James E. Mead[(5)]	$ 315,000	$ 95,287.50[(3)]	$ 163,012.50[(4)]	$ 258,300
Richard J. Moreau	$ 243,750	$ 73,734[(3)]	$ 126,141[(4)]	$ 199,875
Paula C. Maggio	$ 150,000	$ 45,375[(3)]	$ 77,625[(4)]	$ 123,000
Stephen M. Briggs	$ 136,200	$ 41,200[(3)]	$ 70,484[(4)]	$ 111,684

(1) Target for component is $375,000. Payout at approximately 143% of target.
(2) Target for component is $375,000. Payout at approximately 21% of target.
(3) Target for component for Mead, Moreau, Maggio and Briggs is $78,750, $60,937.50, $37,500 and $34,050, respectively. Payout at approximately 121% of target.
(4) Target for component for Mead, Moreau, Maggio and Briggs is $236,250, $182,812.50, $112,500 and $102,150, respectively. Payout at approximately 69% of target.
(5) Mr. Mead s employment with the Company ended on March 8, 2010.

(3) LTI Program

Restricted Stock Units (the RSUs), performance-based restricted stock units or performance shares and stock options may be awarded as long-term incentives, and are used to balance the short-term focus of annual bonus awards by tying rewards to performance achieved over multi-year periods, as well as providing us with a tool to retain our NEOs. In 2009, the Company also adopted the Value Creation Plan (the VCP), which was intended to align management with our stockholders by utilizing a multi-year program that was directly linked to share price appreciation. Our compensation philosophy for executives traditionally has placed significant emphasis on long-term incentives, which is consistent with our goal of aligning management with our stockholders.

Restricted Stock Units

RSUs are grants of notional shares with time-based vesting restrictions. Each unit is worth one share of our common stock and the awards generally vest over a three-year period, with common shares delivered to NEOs upon vesting (absent a deferral agreement). Unless provided otherwise in an agreement, unvested RSUs are forfeited when an executive s service with the Company is terminated. The compensation committee believes that awards of RSUs create an incentive for senior executives to operate the Company in a manner that creates significant long-term value and also assists with retention of superior executive talent in critical positions.

Under Mr. Geller s amended and restated employment agreement, in 2010 Mr. Geller was entitled to receive a grant of three-year time-vested RSUs equal to the lesser of (i) $900,000 and (ii) 125,000 RSUs. In accordance

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with his agreement, on February 25, 2010, Mr. Geller received a grant of 125,000 RSUs. Additionally, upon execution of the amended and restated employment agreement in August, 2009, Mr. Geller received a grant of 75,000 three-year time-vested RSUs.

For Mr. Mead, annual grants have historically been determined at a target value of 140% of base salary. For the other NEOs, annual grants have historically had a target value set at 100% of base salary. The actual award may be adjusted based on the executive s performance, experience and expertise. The value of the award is then divided by the share price of the Company s common stock on the grant date to determine the actual number of RSUs to be granted. However, in 2010, in light of the then current stock price of the Company and the share constraints in the 2004 Incentive Plan, the compensation committee determined that the historic methodology of granting based on an adjusted target value was no longer feasible. Consequently, for the 2010 RSU grant, made February 25, 2010, the compensation committee elected to allocate no greater than one percent of the total number of common shares outstanding. As a result, the total number of RSUs that were granted to eligible employees, including the NEOs, was 706,974. In order to arrive at the number of RSUs to grant to each NEO other than Mr. Geller, the Company divided the target value for each NEO by five and the resulting amount was the number of RSUs granted.

A summary of the elements of the 2010 RSU grants applicable to the NEOs, other than Mr. Geller is as follows:

Type of Awards	Eligible Employees	Target Grant	Vesting	Value
RSUs	NEOs other than Mr. Geller	Target Value of Award ÷ 5 = # of RSUs	3-year step vesting on January 1 of each year	Based on common stock share value on grant date

The following table describes the 2010 RSU grants to our NEOs:

Named Executive Officer	2010 RSU Grant (# of RSUs)
Laurence S. Geller	125,000
James E. Mead(1)	117,600
Richard J. Moreau	65,000
Paula C. Maggio	55,000
Stephen M. Briggs	45,400

(1) Mr. Mead s employment with the Company ended March 8, 2010.

Additionally in 2009, the compensation committee elected to accelerate, effective March 31, 2009, the vesting of all RSUs held by all employees, including the NEOs, except for those grants awarded in March, 2009. Such acceleration provided a small level of additional compensation to our employees in a year with significantly diminished compensation and served to reduce the future accounting expense related to these RSUs that were issued previously at significantly higher values than the then-current trading price of the Company s stock.

The compensation committee intends to consider annual long-term incentive grants for executives going forward and may consider special grants if it deems such action appropriate or necessary to attract or retain talent or pay in accordance with the Company s philosophy.

Value Creation Plan

On August 27, 2009, the Company adopted the VCP to further align the interests and efforts of key employees, including our NEOs, to the interests of the Company s stockholders in creating stockholder value and providing key employees an added incentive to work towards the Company s growth and success. The VCP

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provides for up to 2.5% of the Company s market capitalization (limited to a maximum market capitalization based on a common stock price of $20 per share) to be provided to participants in the VCP in 2012 if the highest average closing price of the Company s common stock during certain consecutive twenty trading day periods in 2012 is at least $4.00 (the Normal Distribution Amount). The common stock price prior to 2012 is not utilized in determining the pay-out under the VCP in order to ensure that the current challenges facing the Company have been met and the stock price appreciation is sustainable. In addition, if a Change of Control (as defined in the VCP) occurs at any time prior to December 31, 2012, participants in the VCP will generally not be entitled to the Normal Distribution Amount and will instead be entitled to receive 2.5% of the Company s market capitalization based on the value of a share of the Company s common stock upon the Change of Control (the Change of Control Price), regardless of the Change of Control Price and regardless of whether it is at least the $4.00 minimum or greater than the $20.00 maximum for calculating Normal Distribution Amounts.

The compensation committee established the $4.00 threshold stock price in 2012 based on the recommendation of Vivient and based on a number of factors, including the then current stock price of $1.21, the historical 52-week trading range, the difficult economic environment for the Company and analyst reports. The compensation committee determined that the stock price in 2012 is critical due to upcoming important debt maturities of the Company on or before that time. A total of one million VCP units (the VCP Units) (representing the opportunity to earn an amount equal to 2.5% of the Company s market capitalization) can be allocated to key employees participating in the VCP.

Awards Under Value Creation Plan

Of the 1,000,000 VCP Units, the compensation committee has granted Mr. Geller 600,000 VCP Units. In determining the level of the grant, the compensation committee and Vivient reviewed Mr. Geller s award of 600,000 VCP Units and his annual grant of time-vested RSUs under his amended and restated employment agreement to ensure that Mr. Geller s payout for long-term incentive compensation over the approximately three-year term of his agreement did not exceed 2.1% of total market capitalization of the Company for such period, or approximately .7% of total market capitalization for each of 2010, 2011 and 2012. Mr. Geller forfeits VCP Units under the VCP if he voluntarily terminates employment or his employment is terminated for cause (as defined in the Agreement). If Mr. Geller s employment is terminated without cause or he has a constructive termination or he dies or becomes disabled, Mr. Geller or his estate will be entitled to keep the VCP Units granted to him and be paid in accordance with the terms of the VCP. Payments upon a VCP Unit distribution may be made in cash, in shares of the Company s common stock (subject to approval by the stockholders of the Company), in some combination thereof or in any other manner approved by the committee of the Board administering the VCP.

In February, 2010, after consideration of the need to motivate, incent and retain the NEOs and to better align them with stockholders, the compensation committee granted the other NEOs awards under the VCP. Such awards were determined in the compensation committee s subjective discretion, based on the recommendation of the CEO. The awards made to the other NEOs were:

Name	VCP Units	% Market Capitalization
James E. Mead[1]	90,000	0.225%
Richard J. Moreau	90,000	0.225%
Paula C. Maggio	70,000	0.175%
Stephen M. Briggs	70,000	0.175%

(1) Mr. Mead s employment with the Company ended March 8, 2010 and his Award of VCP Units was forfeited.

For the NEOs other than Mr. Geller, upon any termination of employment prior to January 1, 2012, the award of VCP Units will be forfeited.

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Performance-Based Restricted Stock Units (Performance Shares)

In prior years for Mr. Geller and Mr. Mead, the compensation committee had determined that performance shares should be an element of the long-term incentive component of their compensation. Performance shares are earned based on attainment of specified performance measures, typically measured over a three-year period. Performance shares ensure a strong link between pay and long-term performance as the executive s ability to earn shares is diminished if performance goals are not achieved. Currently, due to share constraints in the 2004 Incentive Plan and the stock price in general, the compensation committee believes a program more directly linked to share price appreciation such as the VCP, is preferable to incent and motivate the NEOs and appropriately align the NEOs with the Company s stockholders.

With respect to Mr. Geller and Mr. Mead, the compensation committee had previously determined that 40% of the value of their long-term incentives should be in the form of performance shares that are earned based on achievement of key strategic company measures. Mr. Geller s previous employment agreement provided that 67% of his performance shares will be earned with respect to achievement of budgeted FFO, as defined below, per share. The compensation committee believed that long-term FFO per share success would lead to strong stock performance and investor confidence, and was a key element in aligning executive pay with value creation for stockholders. The remaining 33% was tied to achievement of Relative Total Stockholder Return (share price appreciation plus dividend) (the TSR), which is based on our performance relative to the TSRs of each of the companies included in the Bloomberg Hotel REIT Index (the Index) at the end of the performance period. The compensation committee elected to benchmark the TSR measure against a recognized industry index in an effort to gauge performance with respect to an objective third-party stock index. Mr. Geller was eligible to receive 150% of the number of targeted performance shares in the case of extraordinary performance in long-term FFO per share and TSR. In the unique case of both extraordinary performance in long-term FFO per share and a positive TSR rank of #1 among the Index companies, Mr. Geller was eligible to receive up to 166.67% of the number of targeted performance shares, which the compensation committee believed was an appropriate award for such an accomplishment.

Mr. Mead s employment agreement contained a similar program for 2009; however, the compensation committee did not make an award to Mr. Mead under the program in 2009 and consequently, at year-end 2009, approved a $100,000 discretionary cash bonus.

For computational purposes, we use the NAREIT definition of Funds From Operations (FFO), with adjustments for items such as gain or loss on extinguishment of debt, foreign currency translation gains or losses, impairment losses, and certain other items of a non-recurring nature. NAREIT defines FFO as net income (computed in accordance with generally accepted accounting principles, excluding gains or losses from sales of real estate property), plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures.

Awards to Mr. Geller

Mr. Geller received a three-year RSU grant in 2006 to provide him with long-term incentives of $6,000,000 for the period of the grant. Pursuant to Mr. Geller s amended and restated employment agreement, which is discussed in greater detail under Employment Agreements and Potential Post-Termination Payments Laurence S. Geller Employment Agreement beginning on page 32, in 2006 Mr. Geller received a grant comprised of stock options (40% of total value), performance shares (40% of total value) and time-vested RSUs (20% of total value). While grants for options and RSUs were made at the time of the contract, the determination of the number of performance shares earned was made at year-end in 2007, 2008 and 2009 based on actual performance. The performance shares are earned based on FFO per share against budget (67% of the performance shares eligible to be earned) and TSR against the Index (33% of the performance shares eligible to be earned).

On December 31, 2009, Mr. Geller earned 18,516 performance shares, including reinvested dividends. Such shares will vest, based on continued employment by us, on December 31, 2010, subject to acceleration upon

certain events and other terms of Mr. Geller s 2006 amended and restated employment agreement. The earned performance shares were based on the achievement of FFO of $-.30 per share, which equates to pay out at 50% of the target performance shares for annual FFO performance, equating to 18,516 performance shares, including reinvested dividends. In 2009, Mr. Geller did not earn any performance shares related to the Company s TSR measured against the Index.

Mr. Mead did not receive a 2009 LTI Program award, consequently, there were no performance shares which were available for him to earn as of December 31, 2009. Mr. Mead s employment with the Company ended March 8, 2010.

(4) Perquisites and Other Benefits

We provide executive officers with a limited number of perquisites that the Company and compensation committee believe are reasonable and consistent with our industry. The compensation committee reviews the perquisites annually. Certain perquisites are discussed in further detail in footnotes 4 and 5 to the summary compensation table under 2009 Summary Compensation Table on page 28.

(5) Retirement

We do not have a defined benefit pension plan. The Strategic Hotel Funding, L.L.C. 401(k) Plan is a tax-qualified retirement savings plan pursuant to which all U.S. based employees, including the NEOs, are able to contribute and also receive a dollar-for-dollar Company matching contribution based on the level contributed by the employee capped at 6% and subject to the compensation limits for qualified plans. In the event of achievement of our financial goals, the Company retains discretion to provide an additional contribution to the accounts of all employees participating in the 401(k) plan. In 2009, the Company did not make any discretionary additional contributions.

(6) Employment Agreements

The Company has an employment agreement with Mr. Geller. The employment agreement is intended to ensure retention of Mr. Geller as the critical member of the management team and to motivate Mr. Geller is to achieve superior long-term results on behalf of the Company.

The Company entered into an amended and restated employment agreement with Mr. Geller in August 2009. Mr. Geller s prior agreement was scheduled to expire December 31, 2009, and the Board felt it was important and in the Company s best interest to retain Mr. Geller s expertise and services for an extended period, through December 31, 2012. As part of the agreement, Mr. Geller gave up his right to any parachute tax gross-up. The compensation program structure includes base salary, annual incentive bonus opportunity, annual award of RSUs and a one-time award of VCP Units. The compensation committee believes that such plan design appropriately motivates and incents Mr. Geller and aligns his interests with the interests of the stockholders.

Although the other NEOs do not have employment agreements, in 2008 the Company entered into an agreement with each of the other NEOs regarding severance in the event of termination without cause, constructive termination or change in control. See Employment Agreements and Potential Post-Termination Payments Severance Program beginning on page 36. The compensation committee reviewed severance protections for executive officers of the Company s peer group of companies and determined that entering into the agreements provided contractual severance protections with the other NEOs in the event of termination without cause or a change-in-control would be consistent with protections found at the peer group.

Additionally, the 2004 Incentive Plan contains single trigger vesting of equity awards upon a change-in-control. We believe that such single trigger vesting provides a reasonable measure of security to the

NEOs that the long-term component of their compensation is not put at risk should the Company undergo such a transaction and ensures that the NEOs would not have objections to a transaction favorable to stockholders based on loss or impairment of their equity compensation value.

We previously had an employment agreement with Mr. Mead; however, Mr. Mead s employment with the Company ended March 8, 2010.

V. Timing of Equity Grants

Historically, grants of equity-based awards under our LTI Program are determined by the compensation committee and have typically been made in March of each calendar year following review by the compensation committee of the prior year s Company and individual performance. Grants may also be at other times of the year upon execution of a new employment agreement, or in a new hire or promotion situation.

Starting in 2007, the compensation committee determined that annual grants of RSUs, stock options or performance shares will be made on the same date once a year, currently March 6th, or if that is not a trading date, the grant date will be the following trading date. If the approved RSU or performance share grant is set forth in dollars, the number of RSUs will be determined using the closing price of the common stock on the date of grant. The exercise price for stock options will also be the closing price of the common stock on the date of grant. The compensation committee will approve such grants on (or possibly before) the grant date. The compensation committee retains the discretion to award grants of RSUs, stock options or performance shares at other times during the year if it determines such action is appropriate. In 2010, instead of a dollar value, the RSU grants were determined as a specific number of RSUs and the grant date was February 25, 2010, which was the date of the compensation committee meeting approving such RSU grants. See LTI Program Restricted Stock Units beginning on page 21.

VI. Adjustment or Recovery of Awards

To the extent that any of our financial results are misstated as a result of Mr. Geller s willful misconduct or gross negligence and financial results are subsequently restated downward which would have resulted in lower awards to Mr. Geller, Mr. Geller s employment agreement provides for offsets for future amounts due and/or clawbacks against past amounts paid pursuant to compensatory awards.

In addition, under Section 304 of Sarbanes-Oxley, if the Company is required to restate its financials due to material noncompliance with any financial reporting requirements as a result of misconduct, Mr. Geller and Mr. Mead must reimburse the Company for (1) any bonus or other incentive-based or equity-based compensation received during the 12 months following the first public issuance of the non-complying document, and (2) any profits realized from the sale of securities during those 12 months.

VII. Consideration of Prior Amounts Realized

In furtherance of our philosophy of rewarding executives for future superior performance, prior stock compensation gains are not considered in setting future compensation levels.

VIII. Stock Ownership Guidelines and Hedging Policies

The compensation committee has adopted stock ownership guidelines that are intended to require executive officers to own stock, or RSUs, in the Company equal to a percentage of their base salary, depending on their position. Mr. Geller is required to own stock or RSUs equal to five times his base salary and the other NEOs are required to own stock or RSUs equal to three times their base salary. Executives are required to reach these levels within five years of the later of commencement of employment or promotion to such executive level. Due to the economic downturn and its effect on the Company s stock price, none of our executives are currently in compliance with this guideline and the Company s compensation committee has waived the guideline through 2010. Other than these guidelines, there are no mandated equity holding periods.

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We also maintain a policy that prohibits executives from holding Company securities in a margin account or pledging our securities as collateral for a loan. An exception exists is if the executive requests prior approval from the Company to pledge securities as collateral for a loan (but not for margin accounts) and the executive can demonstrate the financial capacity to repay the loan without resort to the pledged securities. None of our executives have pledged shares in this manner.

IX. Impact of Tax and Accounting

As a general matter, the compensation committee takes into account the various tax and accounting implications of compensation vehicles employed by the Company.

When determining amounts of long-term incentive grants to executives and employees, the compensation committee examines the accounting expense associated with the grants. Under Statement of Financial Accounting Standard 123 (revised 2004), grants of stock options, restricted stock, RSUs and other share-based payments result in an accounting charge for us. The accounting charge is equal to the grant date fair value of the instruments being issued. For RSUs, the expense is equal to the fair value of the stock on the date of grant times the number of shares or units granted. This expense is amortized over the requisite service period or vesting period of the instruments. The Company has accounted for the VCP as a liability award. The fair value of the VCP will be re-measured at the end of each reporting period, and the Company will make adjustments to the compensation expense and liability to reflect the fair value.

Compensation Committee Report

The compensation committee has reviewed and discussed the Compensation Discussion & Analysis with management and, based on that review and discussion, recommends to the Board that it be included in our annual report on Form 10-K and our proxy statement.

Compensation Committee

James A. Jeffs (Chairman)

Raymond L. Gellein, Jr.

Richard D. Kincaid

Eugene F. Reilly

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2009 Summary Compensation Table

The following table sets forth for the year indicated the annual compensation of our CEO, our CFO and our other NEOs.

2009 SUMMARY COMPENSATION TABLE

Name and Principal Position (a)	Year (b)	Salary ($) (c)	Bonus ($) (d)	Stock awards ($)(1) (e)	Option awards ($)(1) (f)	Non-equity incentive plan compen-sation ($)(1) (g)	Change in pension value and nonqualified deferred compensation earnings ($) (h)	All other compen-sation ($)(2) (i)	Total ($) (j)
Laurence S. Geller	2009	$ 750,000		$ 107,250		$ 615,000		$ 33,804(3)	$ 1,506,054
President and Chief Executive Officer	2008	$ 750,000						$ 13,800	$ 763,800
	2007	$ 750,000				$ 1,500,000		$ 22,500	$ 2,272,500
James E. Mead(6)	2009	$ 420,000	$ 100,000(5)			$ 258,300		$ 14,700(4)	$ 793,000
Executive Vice President, Chief	2008	$ 417,692	$ 25,000	$ 390,015	$ 285,706			$ 13,800	$ 1,132,213
Financial Officer	2007	$ 396,308		$ 470,723	$ 249,090	$ 450,000		$ 22,500	$ 1,588,621
Richard J. Moreau	2009	$ 325,000		$ 52,813(7)		$ 199,875		$ 14,700(4)	$ 592,388
Executive Vice President Asset	2008	$ 317,846	$ 25,000	$ 487,509				$ 13,800	$ 844,155
Management	2007	$ 261,500		$ 263,019		$ 296,000		$ 22,500	$ 843,019
Paula C. Maggio	2009	$ 250,000		$ 40,625(7)		$ 123,000		$ 14,700(4)	$ 428,325
Senior Vice President Secretary & General	2008	$ 246,539	$ 25,000	$ 350,004				$ 13,800	$ 635,343
Counsel	2007	$ 217,692		$ 264,006		$ 195,000		$ 22,500	$ 699,198
Stephen M. Briggs	2009	$ 227,000		$ 36,888(7)		$ 111,684		$ 14,700(4)	$ 390,272
Senior Vice President Chief Accounting Officer	2008	$ 226,192	$ 25,000	$ 147,558				$ 13,800	$ 412,550

(1) This column represents the grant date fair values of the awards as described in note 12 in our financial statements included in our annual report on Form 10-K for the year ended December 31, 2009.
(2) Each NEO received a 401(K) matching contribution of $14,700 in 2009.
(3) Includes perquisites in the total amount of $19,104 comprised of legal fees related to employment agreement ($14,364), parking ($4,740) and complimentary or discounted services for executive or family when on personal travel at hotels owned by us. The amounts reflect the aggregate incremental cost to the Company.
(4) The aggregate incremental cost to the Company of the perquisites to Mr. Mead, Mr. Moreau, Ms. Maggio and Mr. Briggs in 2009 did not on an individual basis exceed $10,000, and consequently, pursuant to SEC rules, are not disclosed.
(5) In January, 2010, the compensation committee awarded Mr. Mead a $100,000 cash award to recognize 2009 performance; he did not receive a 2009 LTI grant.
(6) Mr. Mead s employment with the Company ended March 8, 2010.
(7) Stock awards reflect those awards made in 2009 related to 2008 performance. Grants made in 2010 related to 2009 performance are detailed in the LTI Program section of the compensation discussion and analysis, beginning on page 21.

2009 Grants of Plan-Based Awards Table

Name	Grant date	Estimated future payouts under non-equity incentive plan awards[1]			Estimated future payouts under equity incentive plan awards			All other stock awards: number of shares of stock or units (#)	All other option awards: number of securities underlying options (#)	Exercise or base price of option awards ($/Sh)	Grant date fair-value of stock & option awards[8]
		Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)				
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
Laurence S. Geller	8/27/09	$ 500,000 $ 4,515,195[2]	$ 750,000	$ 1,500,000 $ 22,575,976[2]				75,000			$ 107,250
James E. Mead[9]			$ 315,000[3]		$ 117,600[4]	$ 235,200[4] $ 235,200[5] $ 117,600[6]	$ 392,000[4]				
Richard J. Moreau	3/20/09	$ 121,875	$ 243,750	$ 365,625		$ 325,000[7]	$ 487,500[7]	81,250			$ 52,813
Paula C. Maggio	3/20/09	$ 75,000	$ 150,000	$ 225,000		$ 250,000[7]	$ 375,000[7]	62,500			$ 40,625
Stephen M. Briggs	3/20/09	$ 68,100	$ 136,200	$ 204,300		$ 227,000[7]	$ 340,500[7]	56,750			$ 36,888

(1) These columns show the potential value of the payout for each named executive if the threshold, target or maximum goals are satisfied for all performance measures for 2009. The business measurements, performance goals and salary and bonus multiples for determining the payout are described under Compensation Discussion and Analysis beginning on page 17.

(2) Represents VCP units payable in 2012 if stock price hurdle is met. In the event of change-in-control, there is no threshold or maximum limits. The VCP is described under Compensation Structure Pay Elements LTI Program Value Creation Plan beginning on page 22.

(3) Mr. Mead s employment agreement only refers to a target award. Additional discretionary awards can be granted to our NEOs.

(4) Represents the potential dollar amount of performance shares that may be earned by Mr. Mead as of December 31, 2009, under the 2004 Incentive Plan, pursuant to his amended employment agreement. The business measurements and performance goals for determining the grant are described under Compensation Discussion and Analysis beginning on page 17. Mr. Mead did not receive a grant of performance shares in 2009.

(5) Represents the dollar amount of stock options that Mr. Mead was eligible to receive in 2009 under his amended employment agreement, which for these purposes is calculated based on his base salary of $420,000 per year. Mr. Mead did not receive a grant of stock options in 2009.

(6) Represents the dollar amount of time-vested RSUs that Mr. Mead was eligible to receive in 2009 under his amended employment agreement, which for these purposes is calculated based on his base salary of $420,000 per year. Mr. Mead did not receive a grant of time-vested RSUs in 2009.

(7) Represents the dollar amount of time-vested RSUs that Mr. Moreau, Ms. Maggio and Mr. Briggs were eligible to be granted based on their 2009 base salaries.

(8) This column shows the full grant date fair value of the RSUs in accordance with FAS 123(R) granted to the NEOs in 2009. Generally, the full grant date fair value is the amount the Company would expense in its financial statements over the vesting period of the award. For RSUs, the fair value is calculated by using the closing price of our common stock of $0.65 on the grant date of March 20, 2009. These amounts reflect our accounting expense, and may not correspond to the actual value that will be recognized by the NEOs.

(9) Mr. Mead s employment with the Company ended March 8, 2010.

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2009 Outstanding Equity Awards at Fiscal Year-End Table

2009 OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

	Option Awards					Stock Awards			
Name (a)	Number of securities underlying unexercised options (#) exercisable (b)	Number of securities underlying unexercised options (#) unexercisable (c)	Equity incentive plan awards number of securities underlying unexercised unearned options (#) (d)	Option exercise price ($) (e)	Option expiration date (f)	Number of shares or units of stock that have not vested (#) (g)	Market value of shares or units of stock that have not vested ($) (h)	Equity incentive plan awards: number of unearned shares, units or other rights that have not vested (#) (i)	Equity incentive plan awards: market or payout value of unearned shares, units or other rights that have not vested ($) (j)
Laurence S. Geller	446,531[(1)]	223,266[(1)]		$ 20.40	9/7/2016	93,516	$ 173,940		
James E. Mead[(4)]	66,424[(2)]			$ 20.24	3/6/2017				
	99,203[(3)]	49,602[(3)]		$ 13.44	3/6/2018				
Richard J. Moreau						81,250	$ 151,125		
Paula C. Maggio						62,500	$ 116,250		
Stephen M. Briggs						56,750	$ 105,555		

(1) Options granted September 7, 2006 pursuant to Mr. Geller s then amended and restated employment agreement vest and become exercisable ratably over a three-year period commencing December 31, 2009. The options expire on the date shown in column (f), which is ten years from grant.

(2) Options granted March 6, 2007 pursuant to Mr. Mead s amended employment agreement vest and become exercisable ratably over a three-year period commencing December 31, 2007. As of December 31, 2009, the options were scheduled to expire on the date shown in column (f), which was ten years from grant. Subsequently, in connection with Mr. Mead s separation agreement dated March 10, 2010, the expiration date of the options is expected to be June 6, 2010.

(3) Options granted March 6, 2008 pursuant to Mr. Mead s amended employment agreement vest and become exercisable ratably over a three-year period commencing December 31, 2008. As of December 31, 2009, the options were scheduled to expire on the date shown in column (f), which was ten years from grant. Subsequently, in connection with Mr. Mead s separation agreement dated March 10, 2010, the expiration date of the options is expected to be June 6, 2010.

(4) Mr. Mead s employment with the Company ended March 8, 2010.

(5) VCP Units granted August 27, 2009 pursuant to Mr. Geller s amended and restated employment agreement.

2009 Option Exercises and Stock Vested Table

	Option awards		Stock awards	
Name (a)	Number of shares acquired on exercise (#) (b)	Value realized upon exercise ($) (c)	Number of shares acquired on vesting (#)[(1)] (d)	Value realized on vesting ($)[(2)] (e)
Laurence S. Geller			634,596	$ 569,806
James E. Mead[(3)]			108,938	$ 102,594
Richard J. Moreau			44,937	$ 39,873
Paula C. Maggio			42,337	$ 37,648
Stephen M. Briggs			18,376	$ 16,244

(1) This column represents the number of units which vested during 2009 under stock awards previously issued under the 2004 Incentive Plan.
(2) Receipt of some or all of the RSUs may have been deferred. See the 2009 Nonqualified Deferred Compensation Plan Table on page 31.
(3) Mr. Mead s employment with the Company ended March 8, 2010.

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2009 Nonqualified Deferred Compensation Plan Table

The following table sets forth certain information with respect to deferrals made by the Company s NEOs pursuant to our equity compensation plan, the earnings thereon and the aggregate balance at December 31, 2009:

Name (a)	Executive contributions in last FY ($)[1] (b)	Registrant contributions in last FY ($) (c)	Aggregate earnings in last FY ($)[2] (d)	Aggregate withdrawals/ distributions ($) (e)	Aggregate balance at last FYE ($)[3] (f)
Laurence S. Geller					
James E. Mead[4]					
Richard J. Moreau	$ 39,873		$ 48,143		$ 204,611
Paula C. Maggio					
Stephen M. Briggs					

(1) These amounts reflect the value of RSUs which vested during 2009 and were deferred by the executive. The value was determined based on the number of RSUs vested and deferred multiplied by the closing price on the vesting date.
(2) Amount reflects decrease in vested and deferred RSU value during 2009.
(3) Amount reflects number of aggregate vested and deferred RSUs multiplied by the closing price on December 31, 2009 ($1.86).
(4) Mr. Mead s employment with the Company ended March 8, 2010.

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2009 Director Compensation Table

The following table sets forth the compensation paid by us to our non-employee directors for the fiscal year ended December 31, 2009:

2009 DIRECTOR COMPENSATION

Name (a)	Fees Earned or Paid In Cash ($)[1] (b)	Stock Awards ($)[2] (c)	Option Awards ($) (d)	Non-equity Incentive Plan Compensation ($) (e)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (f)	All Other Compensation ($) (g)	Total ($) (h)
Robert P. Bowen	$ 87,500	$ 10,201					$ 97,701
Michael W. Brennan[3]	$ 28,783						$ 28,783
Edward Coppola[4]	$ 4,918						$ 4,918
Kenneth Fisher	$ 53,500	$ 10,201					$ 63,701
Raymond L. Gellein	$ 16,128	$ 7,260					$ 23,388
James A. Jeffs	$ 73,500	$ 10,201					$ 83,701
Richard D. Kincaid	$ 52,928	$ 10,201					$ 63,129
David M.C. Michels	$ 38,500	$ 10,201				$ 197,914[5]	$ 246,615
William Prezant	$ 92,000	$ 15,300					$ 107,300
Eugene F. Reilly	$ 16,128	$ 7,260					$ 23,388

(1) Fees for Directors are:

Annual Retainer	$ 25,000
Chairman of the Board (additional retainer)	$ 20,000
Chairman of the Audit Committee (additional retainer)	$ 25,000
Chairman of the Corporate Governance and Nominating Committee (additional retainer)	$ 8,000
Chairman of the Compensation Committee (additional retainer)	$ 8,000
Board Meeting Fee	$ 1,500
Committee Meeting Fee	$ 1,500

(2) Annual equity grants to Directors are fully-vested RSUs valued at $40,000 per year, with the exception of our Chairman of the Board, who receives a grant valued at $60,000. Historically, RSU grants were determined by dollar value of grant divided by closing stock price on grant date; however, in 2009, RSU grants were determined by dividing target value of RSU grant by six in light of share constraints and stock price.

(3) Mr. Brennan resigned as a director as of June 5, 2009.

(4) Mr. Coppola resigned from the Board effective January 28, 2009.

(5) Sir David M.C. Michels acted as a consultant to the Company through December 31, 2009. Sir David M.C. Michels holds 23,087 RSUs that are unvested as of December 31, 2009. The terms of the consulting relationship are described under Transactions with Related Persons beginning on page 42.

Employment Agreements and Potential Post-Termination Payments

In 2009, the Company maintained employment agreements with the two top executive officers, Mr. Geller and Mr. Mead. Mr. Mead s employment with the Company ended March 8, 2010.

Laurence S. Geller Employment Agreement

A. General

On August 27, 2009 (the Effective Date), the Company entered into an amended and restated employment agreement (the Agreement) with the Company s president and CEO, Laurence S. Geller, pursuant to which Mr. Geller will serve as the Company s president and CEO through December 31, 2012 (the Agreement Term),

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subject to earlier termination under certain circumstances as described below. The Agreement also obligates the Company to nominate Mr. Geller for election to the Board during the Agreement Term. As part of the Agreement, Mr. Geller gave up his right to any parachute tax gross-up. The Agreement provides that payments and benefits to Mr. Geller are cutback if such cutback would result in a greater net after-tax amount to Mr. Geller than if Mr. Geller received the payments and benefits subject to parachute excise taxes.

Under the Agreement, Mr. Geller will continue to receive a base salary at an annual rate of $750,000, which may be increased from time to time, subject to annual review by the compensation committee of the Board. For fiscal year 2009 and each subsequent fiscal year, Mr. Geller will be eligible to receive an annual cash performance-based bonus between 66-2/3% and 200% of base salary, with a target bonus of 100% of base salary. Such bonus for 2009 will be determined 50% by achievement of EBITDA goals and 50% as determined in good faith by the compensation committee in its discretion based on Mr. Geller s performance in improving the Company s balance sheet. Such bonus for subsequent years will be determined in part by the achievement of certain formulaic Company financial results established by the compensation committee and Mr. Geller at the beginning of the year and in part by an assessment by the compensation committee of Mr. Geller s performance for the year. The compensation committee may in its discretion award additional incentive compensation during the Agreement Term.

Pursuant to the Agreement, Mr. Geller was granted, as of the Effective Date and pursuant to the Company s VCP, an award of 600,000 VCP Units providing Mr. Geller with the opportunity to earn an amount equal to 1.5% of the Company s market capitalization. In addition, as of the Effective Date, Mr. Geller was granted an award of 75,000 RSUs. The RSUs will vest in three equal annual installments, subject to acceleration upon certain events and other terms of the Agreement. The Agreement provides that during the first quarter of each fiscal year during the Agreement Term, the Company will grant to Mr. Geller RSUs with respect to a number of shares of common stock of the Company equal to the lower of (i) 120% of Mr. Geller s base salary divided by the closing price of a share of common stock of the Company on the date of grant of the RSU or (ii) 125,000. Such annual RSU grants will vest in three annual installments commencing on the first January 1st after the grant of such RSUs, subject to acceleration upon certain events and other terms of the Agreement. RSU awards are also subject to the terms and conditions of the Company s 2004 Incentive Plan. Each RSU award granted under the Agreement will provide for the accrual of dividend equivalents, if any, until the date of delivery.

The Agreement Term will automatically be extended for 12-month periods, unless the Company or Mr. Geller give the other party notice to the contrary by October 1, 2012 or by October 1 of any succeeding year, except that upon a Change in Control (as defined in the Agreement), the Agreement Term will extend for at least 24 months from the date of the Change in Control.

The Company may terminate Mr. Geller s employment upon his death, upon a disability as defined in the Agreement or for cause as newly defined in the Agreement. Cause is defined as: (i) any conduct related to the Company involving gross negligence, gross mismanagement, or the unauthorized disclosure of confidential information or trade secrets; (ii) dishonesty or a violation of the Company s Code of Business Conduct and Ethics that could be expected to result in a detrimental impact on the reputation, goodwill or business position of the Company; (iii) gross obstruction of business operations or illegal or disreputable conduct by Mr. Geller that could be expected to impair the Company s reputation, goodwill or business position and any acts that violate any policy relating to discrimination or harassment; (iv) commission of a felony or a crime involving moral turpitude; or (v) any action involving a material breach of the terms of the agreement including material inattention to or material neglect of duties and such action continuing for 30 days after receiving written notice from the Board.

Mr. Geller s termination of employment will be considered a constructive termination if, without his written consent, the Company, among other things, reduces his salary or bonus opportunity, materially reduces his duties or authority or relocates its principal offices outside the Chicago metropolitan area. The Company may also terminate Mr. Geller s employment without cause at any time by written notice to Mr. Geller. Mr. Geller may terminate his employment at any time by voluntary resignation by written notice to the Company.

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In the event of Mr. Geller s constructive termination or termination by the Company without cause on or within 24 months following a Change in Control, Mr. Geller is entitled to the following post termination benefits: (a) the Accrued Benefits, (b) a lump-sum amount equal to three times the sum of his base salary then in effect plus the higher of his target bonus or the average of the three most recent annual bonuses, (c) a pro-rata target bonus for the elapsed portion of the calendar year through the date of termination payable in lump sum, (d) continued medical coverage for 36 months following the date of termination, (e) RSUs become immediately payable and all restrictions on any restricted stock and other share-based awards lapse, all options immediately vest and remain exercisable for up to five years following the date of termination, earned Performance Shares become immediately vested and for a termination prior to January 1, 2010, the Performance Shares and related dividend equivalent RSUs become immediately earned in a number equal to at least 100% of the Target Shares at each earning date, as adjusted to account for the shares earned in excess of 100% for any earning date that has already occurred and become immediately vested.

The Agreement also contains non-solicitation and confidentiality provisions. The non-solicitation of employees (other than Mr. Geller s executive assistant) provision applies during the term of employment and for a period of 12 months thereafter.

The following table quantifies the amounts that we would owe Mr. Geller upon each of the termination or change in control triggers discussed above (if such had occurred on December 31, 2009):

Laurence S. Geller

Executive Benefits and Payments Upon Termination (a) (b) (c)	Voluntary or For Cause Termination	Death or Disability	CIC Without Termination	Prior to CIC or more than 24 months after CIC, either: 1) Termination without Cause; or 2) Constructive Termination	Upon CIC or within 24 months after CIC, either: 1) Termination without Cause; or 2) Constructive Termination
Severance Payments					
Base Salary	N/A	$ 1,500,000	N/A	$ 1,500,000	$ 2,250,000
Short-Term Incentive	N/A	$ 1,500,000	N/A	$ 1,500,000	$ 2,250,000
Pro-rata Bonus for Year	N/A	$ 750,000	N/A	$ 750,000	$ 750,000
Value of Accelerated Awards					
Options	N/A	0(d)	0(d)	0(d)	0(d)
RSUs	N/A	$ 173,940(f)	$ 173,940(f)	$ 173,940(f)	$ 173,940(e)(f)
VCP	N/A	0(g)	$ 2,099,566	0(g)	$ 2,099,566
Value of Perquisites and Benefits					
Accrued Vacation	$ 86,539	$ 86,539	N/A	$ 86,539	$ 86,539
Health Care	N/A	N/A	N/A	$ 31,447	$ 47,170
Total	$ 86,539	$ 4,010,479	$ 2,273,506	$ 4,041,926	$ 7,657,215

Footnotes

(a) Values have not been discounted to reflect time value of money for payments made.
(b) All values assume termination on December 31, 2009, and are based on our closing stock price as of December 31, 2009 ($1.86).
(c) As an employee, Mr. Geller participates in our life and disability insurance programs available to all employees and such broad-based benefits are not included in this table.
(d) Options are calculated as 0 because the exercise price is in excess of the closing stock price as of December 31, 2009 ($1.86).
(e) Additional awards granted after change in control would be subject to accelerated vesting upon such termination. Awards outstanding at the change-in-control would accelerate upon the change in control.
(f) Value includes all performance shares earned December 31, 2009 converted to RSUs.
(g) Employment Agreement provides upon death, disability, termination without cause or constructive termination, such VCP Units are retained and earned, if applicable, in 2012 or upon a change of control. Calculated as 0 as of December 31, 2009 because of inability to quantify 2012 value and the December 31, 2009 value was less than the threshold required for a normal 2012 distribution.

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James E. Mead Employment Agreement

In March 2007, we entered into an amended employment agreement with Mr. Mead to continue to serve as our CFO and Executive Vice President. Mr. Mead s amended employment agreement provided for a base salary of at least $400,000 per year and a discretionary performance bonus targeted at 75% of his annual base salary. The agreement provided for annual long-term incentive awards in 2007, 2008 and 2009 having a grant-date fair value, assuming achievement of performance criteria at target, equal to 140% of Mr. Mead s base salary, each of which vests in three equal installments and to the extent certain performance conditions are satisfied. In 2009, Mr. Mead s long-term target award was $560,000. The agreement provided that such awards, if made, were to be allocated among Performance Shares (40% of total value), stock options (40% of total value) and RSUs (20% of total value). As indicated above, no longer-term award was made to Mr. Mead in 2009.

Mr. Mead s employment with the Company ended March 8, 2010.

Post-Termination and Change-in-Control Payments

Mr. Mead s amended employment agreement provided that if Mr. Mead is terminated without cause (defined similarly to the definition in Mr. Geller s agreement as described above) or due to constructive termination (as defined below), he will be entitled to (i) severance pay equal to one times (two times if the termination is by reason of a change-in-control (as defined in the 2004 Incentive Plan)) his base salary plus his target bonus of 75% of base salary for such year, (ii) pro-rata target bonus for the year of termination, and (iii) continuation of medical coverage for 12 months (24 months if the termination is by reason of a change in control). In addition, such termination would cause all RSUs, options and performance-based shares scheduled to vest within the one-year period following such termination (and all RSUs, options and performance-based shares by reason of a change-in-control) to immediately and fully vest.

In connection with Mr. Mead s termination of employment as of March 8, 2010, a separation agreement based on the provisions of the employment agreement was entered into as of March 9, 2010 providing Mr. Mead with aggregate severance payments of $815,820 payable in monthly installments throughout 2010 (rather than in a lump sum as provided by the employment agreement) as well as the vesting of certain unvested stock units and options as provided by the employment agreement. Mr. Mead forfeited all rights to any payments under the VCP.

Mr. Mead s amended employment agreement contained non-compete, confidentiality, non-disparagement and non-solicitation covenants from Mr. Mead. The non-compete covenant applies during the term of the employment agreement and for a period of 12 months after the termination of the agreement voluntarily by Mr. Mead or with cause by the Company, prior to a change-in-control. The non-solicitation of employees covenant applies during the two-year period after the termination of Mr. Mead s employment with us.

In the separation agreement, the Company and Mr. Mead agreed that the non-compete provision was not applicable after his termination of employment but the other post-termination covenants in his employment agreement continued to apply. The separation agreement also provided that Mr. Mead would continue to be covered by any director and officer indemnification and/or insurance coverage in effect for other officers on a basis no less favorable than that which applies to any other senior officer. As part of the separation agreement, Mr. Mead released and discharged the Company from any claims against the Company other than the Company s obligations under the separation agreement.

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The following table quantifies the amounts that we would owe Mr. Mead upon each of the termination or change-in-control triggers discussed above (if such had occurred on December 31, 2009):

James E. Mead

Executive Benefits and Payments Upon Termination (a) (b) (c)	Voluntary or For Cause Termination	Death or Disability	CIC Without Termination	Prior to CIC or more than 12 months after CIC; either: 1) Termination without Cause; or 2) Constructive Termination	Upon or within 12 months after CIC; either: 1) Termination Without Cause; or 2) Constructive Termination
Severance Payments					
Base Salary	N/A	N/A	N/A	$ 420,000	$ 840,000
Short-Term Incentive	N/A	N/A	N/A	$ 315,000	$ 630,000
Pro-Rata Short-Term Incentive	N/A	N/A	N/A	$ 315,000	$ 315,000
Value of Accelerated Awards					
Options (d)	0	0	0	0	0
RSUs	N/A	N/A	N/A	N/A	N/A
Value of Perquisites and Benefits					
Accrued Vacation	$ 29,076	$ 29,076	N/A	$ 29,076	$ 29,076
Health Care	N/A	N/A	N/A	$ 22,709	$ 45,417
Total	**$ 29,076**	**$ 29,076**	**$ 0**	**$ 1,101,785**	**$ 1,859,493**

Footnotes

(a) Values have not been discounted to reflect time value of money for payments made.
(b) All values assume termination on December 31, 2009.
(c) As an employee, Mr. Mead participates in our life and disability insurance programs available to all employees and such broad-based benefits are not included in this table.
(d) Options are calculated as 0 because the exercise price exceeds the closing stock price as of December 31, 2009 ($1.86).

Diane M. Morefield Offer Letter

On March 9, 2010, the Board appointed Ms. Diane M. Morefield to serve as Executive Vice President and CFO of the Company, effective April 12, 2010. Pursuant to an offer letter agreement (the Offer Letter), dated as of March 9, 2010, Ms. Morefield is entitled to an annual compensation package comprised of the following elements: (a) an annual base salary of $370,000, paid in bi-weekly installments as earned and, (b) eligibility for an annual bonus with a target of 75% of base salary (the Target Bonus), with a threshold bonus of 50% of Target Bonus and a maximum bonus of 150% of Target Bonus. Additionally, Ms. Morefield will be awarded 85,000 RSUs that vest pro-rata annually over a 3 year period and will be eligible for an annual award of RSUs at such time as they are granted to other eligible employees and provided the 2004 Incentive Plan, or a successor plan thereof, continues to have sufficient units for grant.

Moreover, pursuant to the Offer Letter, Ms. Morefield will be awarded 90,000 VCP Units, which is the equivalent to a pay-out of 0.225% of the Company s market capitalization in 2012, provided certain hurdles, terms and conditions of the VCP are satisfied. The Company will provide Ms. Morefield with written severance protections consistent with the Company s NEOs, other than the CEO.

Severance Program

NEOs other than Mr. Geller and Mr. Mead are each parties to an agreement pursuant to which if the NEO is terminated without cause (as defined below) or experiences a constructive termination (as defined below), each NEO would be entitled to (i) severance pay equal to one times (two times if the termination is by reasons of a change-in-control, as defined in our 2004 Incentive Plan, as described above) base salary plus target bonus of (a) 75% of base salary for Mr. Moreau and (b) 60% of base salary for Ms. Maggio and Mr. Briggs, (ii) pro-rata target bonus for the year of termination and (iii) continuation of medical coverage for 12 months (24 months if

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the termination is by reason of a change-in-control). In addition, such termination will cause all RSUs and performance-based shares, if any, scheduled to vest within the one-year period following termination (and all RSUs and performance-based shares by reason of a change-in-control) to immediately and fully vest.

For purposes of the agreements, the definition of cause is: (i) the willful and continued failure by the NEO, after notice and opportunity to cure, to substantially perform duties, (ii) willful gross misconduct involving serious moral turpitude of breach of loyalty, (iii) conviction of felony, crime involving fraud or other illegal conduct injurious to the Company, (iv) material breach of material written policies, (v) willful dishonesty in connection with Company business, (vi) willfully impeding, obstructing or failing to cooperate with a Board authorized investigation or (vii) willful withholding, removing, concealing or falsifying material in an investigation.

Constructive Termination means (i) the Company materially reduces the executive s base salary or bonus opportunity or materially breach the agreement; (ii) the Company materially reduces the executive s duties or authority, or materially restrict ability to communicate with our CEO or the Board or a committee of the Board; (iii) the Company relocates our principal offices, or the executive s principal place of employment, outside the Chicago metropolitan area; or (iv) any successor to the Company, or the Company itself following a change-in-control, fails to assume the employment agreement or affirm its obligations hereunder in any material respect.

For the purposes of the agreements, the definition of change-in-control in the 2004 Incentive Plan was used. For purposes of the 2004 Incentive Plan, a change-in-control means the happening of any of the following:

- any person or entity, including a group , has or acquires beneficial ownership of 25% or more of the combined voting power of our then outstanding securities entitled to vote generally in the election of directors (not including voting securities held by us or companies related to us or any employee benefit plan of ours or our related companies);

- the individuals who, as of the beginning of the period commencing two years prior to the date on which the occurrence of a change-in-control is to be determined (or who have been approved by a vote of at least two-thirds of the members of the Board), constitute our Board, cease for any reason to constitute more than 50% of the Board;

- a consummation of a merger, consolidation or reorganization or similar event involving us, whether in a single transaction or in a series of transactions, unless, following such transaction:

  - the persons or entities with beneficial ownership, immediately before such transaction, have beneficial ownership of more than 50% of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors of the surviving entity in such transaction in substantially the same proportions as their beneficial ownership of the voting securities immediately before such transaction;

  - the individuals who were members of the incumbent board immediately prior to the execution of the initial agreement providing for such transaction constitute more than 50% of the members of the board of the surviving entity in such transaction; and

  - no person or entity (other than us or a related company or any person who immediately prior to such transaction had beneficial ownership of 25% or more of the then voting securities) has beneficial ownership of 25% or more of the then combined voting power of the surviving entity s then outstanding voting securities;

- the assignment, sale, conveyance, transfer, lease or other disposition of all or substantially all of our assets to any person or entity (other than us or any related company) unless, immediately following such disposition, the conditions described in the preceding three bullet points will be satisfied with respect to the entity which acquires such shares; or

our liquidation or dissolution.

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The following tables quantify amounts to which our other three NEOs would be entitled if they had been terminated as of December 31, 2009:

Richard J. Moreau

Executive Benefits and Short-Term Incentive Payments Upon Termination (a) (b) (c) (d)	Voluntary or For Cause Termination	Death or Disability	CIC Without Termination	Prior to CIC or more than 12 months after CIC; either: 1) Termination without Cause; or 2) Constructive Termination	Upon or within 12 months after CIC; either: 1) Termination Without Cause; or 2) Constructive Termination
Severance Payments					
Base Salary	N/A	N/A	N/A	$ 325,000	$ 650,000
Short-Term Incentive	N/A	N/A	N/A	$ 245,375	$ 490,750
Pro-Rata Short-Term Incentive	N/A	N/A	N/A	$ 245,375	$ 245,375
Value of Accelerated Awards					
Options	N/A	N/A	N/A	N/A	N/A
RSUs (d)	N/A	N/A	$ 151,125	$ 50,375	$ 151,125
Value of Perquisites and Benefits					
Accrued Vacation	$ 22,500	$ 22,500	N/A	$ 22,500	$ 22,500
Health Care	N/A	N/A	N/A	$ 15,723	$ 31,446
Total	**$ 22,500**	**$ 22,500**	**$ 151,125**	**$ 904,348**	**$ 1,591,196**

Footnotes

(a) Values have not been discounted to reflect time value of money for payments made.

(b) All values assume termination on December 31, 2009, and are based on our closing stock price as of December 31, 2009 ($1.86).

(c) As an employee, Mr. Moreau participates in our life and disability insurance programs available to all employees and such broad-based benefits are not included in this table.

(d) All awards vest in the event of a change-in-control. Additionally, upon termination without cause or constructive termination, vesting of grants that are scheduled to vest in the one-year period following such termination is accelerated.

Paula C. Maggio

Executive Benefits and Short-Term Incentive Payments Upon Termination (a) (b) (c) (d)	Voluntary or For Cause Termination	Death or Disability	CIC Without Termination	Prior to CIC or more than 12 months after CIC; either: 1) Termination without Cause; or 2) Constructive Termination	Upon or within 12 months after CIC; either: 1) Termination Without Cause; or 2) Constructive Termination
Severance Payments					
Base Salary	N/A	N/A	N/A	$ 250,000	$ 500,000
Short-Term Incentive	N/A	N/A	N/A	$ 150,000	$ 300,000
Pro-Rata Short-Term Incentive	N/A	N/A	N/A	$ 150,000	$ 150,000
Value of Accelerated Awards					
Options	N/A	N/A	N/A	N/A	N/A
RSUs (d)	N/A	N/A	$ 116,250	$ 38,750	$ 116,250

Value of Perquisites and Benefits										
Accrued Vacation	$	14,904	$	14,904		N/A	$	14,904	$	14,904
Health Care		N/A		N/A		N/A	$	22,709	$	45,417
Total	**$**	**14,904**	**$**	**14,904**	**$**	**116,250**	**$**	**626,363**	**$**	**1,126,571**

Footnotes

(a) Values have not been discounted to reflect time value of money for payments made.

(b) All values assume termination on December 31, 2009, and are based on our closing stock price as of December 31, 2009 ($1.86).

(c) As an employee, Ms. Maggio participates in our life and disability insurance programs available to all employees and such broad-based benefits are not included in this table.

(d) All awards vest in the event of a change-in-control. Additionally, upon termination without cause or constructive termination, vesting of grants that are scheduled to vest in the one-year period following such termination is accelerated.

Stephen M. Briggs

Executive Benefits and Short-Term Incentive Payments Upon Termination (a) (b) (c) (d)	Voluntary or For Cause Termination	Death or Disability	CIC Without Termination	Prior to CIC or more than 12 months after CIC; either: 1) Termination without Cause; or 2) Constructive Termination	Upon or within 12 months after CIC; either: 1) Termination Without Cause; or 2) Constructive Termination
Severance Payments					
Base Salary	N/A	N/A	N/A	$ 227,000	$ 454,000
Short-Term Incentive	N/A	N/A	N/A	$ 90,800	$ 181,600
Pro-Rata Short-Term Incentive	N/A	N/A	N/A	$ 90,800	$ 90,800
Value of Accelerated Awards					
Options	N/A	N/A	N/A	N/A	N/A
RSUs (d)	N/A	N/A	$ 105,555	$ 35,185	$ 105,555
Value of Perquisites and Benefits					
Accrued Vacation	$ 7,857	$ 7,857	N/A	$ 7,857	$ 7,857
Health Care	N/A	N/A	N/A	$ 14,883	$ 29,766
Total	**$ 7,857**	**$ 7,857**	**$ 105,555**	**$ 466,525**	**$ 869,578**

Footnotes

(a) Values have not been discounted to reflect time value of money for payments made.
(b) All values assume termination on December 31, 2009, and are based on our closing stock price as of December 31, 2009 ($1.86).
(c) As an employee, Mr. Briggs participates in our life and disability insurance programs available to all employees and such broad-based benefits are not included in this table.
(d) All awards vest in the event of a change-in-control. Additionally, upon termination without cause or constructive termination, vesting of grants that are scheduled to vest in the one-year period following such termination is accelerated.

Risk Management and Our Compensation Policies and Practices for All Employees

The Compensation Committee reviewed our compensation policies and practices for all employees, including executive officers, and determined that our compensation policies and programs do not create risks that are reasonably likely to have a material adverse effect on the company. The Compensation Committee noted several design features of our compensation programs for all employees that reduce the likelihood of excessive risk-taking including: balanced mix of cash and equity and annual and longer-term incentives and the broad discretion retained by the compensation committee in determining compensation.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our officers and directors, and persons who own, or are part of a group that owns, more than 10% of a registered class of our equity securities, to file reports of ownership and changes in ownership with the SEC and the NYSE. Officers, directors and greater than 10% stockholders are required by regulation of the SEC to furnish us with copies of all Section 16(a) forms they file.

Based solely on our review of Forms 3, 4 and 5 and amendments thereto and other information obtained from our directors and officers and certain 10% stockholders or otherwise available to us, we believe that during the 2009 fiscal year our directors, officers and beneficial owners of more than 10% of our total outstanding common shares did not fail to file on a timely basis the reports required by Section 16(a) filing requirements.

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STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

As of March 18, 2010, there were a total of 75,349,854 shares of our common stock issued and outstanding. The following table sets forth, as of March 18, 2010, certain information with respect to the beneficial ownership of our common stock by:

each person known to us to be the beneficial owner of more than 5% of our outstanding common stock;

each director, director nominee and NEO; and

all of our directors and NEOs as a group.

Such information (other than with respect to our directors and executive officers) is based on a review of statements filed with the SEC pursuant to Sections 13(d), 13(f) and 13(g) of the Exchange Act with respect to our common stock.

In presenting the percentage interest, we have assumed that all membership units of the Company s operating partnership are immediately exchangeable for shares of the Company s common stock, which results in a total of 76,304,600 shares.

Name of Beneficial Owner	Number of Shares of Common Stock Beneficially Owned (1)	Number of Membership Units	Percent of Class
Directors and Executive Officers (2)			
Laurence S. Geller (3)	994,514	67,095	1.4%
Robert P. Bowen	27,500		*
Kenneth Fisher (4)	30,000		*
Raymond L. Gellein (5)	250,000		*
James A. Jeffs	0		*
Richard D. Kincaid	0		*
Sir David M.C. Michels	37,982		*
William A. Prezant (6)	35,000		*
Eugene F. Reilly (5)	10,000		*
Stephen M. Briggs	31,721		*
Paula C. Maggio	69,628		*
James E. Mead (7)	324,123		*
Richard J. Moreau	11,424		*
All directors, nominees and NEOs as a group (13 in group)	1,821,892	67,095	2.5%
Other Stockholders			
The Vanguard Group, Inc. (8)	6,495,876		8.5%
High Rise Capital Advisors, L.L.C., et al. (9)	5,543,550		7.3%
Vector Group Ltd. (10)	5,333,526		7.0%
BlackRock, Inc. (11)	4,983,684		6.5%
Harbinger Holdings, LLC et al. (12)	4,205,000		5.5%
Cascade Investment, L.L.C., et al. (13)	4,190,000		5.5%
Vanguard Specialized Funds Vanguard REIT Index Fund (14)	3,771,412		4.9%

* Less than 1% of the issued and outstanding shares.

(1) Does not include the following shares of common stock underlying RSUs: Mr. Geller, 218,516, Mr. Bowen, 17,839, Mr. Fisher, 11,776, Mr. Gellein, 5,077, Mr. Jeffs, 13,160, Mr. Kincaid, 8,374, Sir David M.C. Michels, 36,608, Mr. Prezant, 19,257, Mr. Reilly, 5,077, Mr. Briggs, 83,234, Ms. Maggio 96,667 and Mr. Moreau, 256,256. Does not include: 1,400 shares of the Company s 8.25% Series C

Cumulative Redeemable Preferred Stock owned by Mr. Briggs and 1,000 shares of 8.5% Series A Cumulative Redeemable Preferred Stock owned by Mr. Mead. Mr. Mead owned less than 1% of the 4,488,750 shares of our 8.5% Series A Cumulative Redeemable Preferred Stock issued and outstanding as of March 18, 2010. Mr. Briggs owned less than 1% of the 5,750,000 shares of our 8.25% Series C Cumulative Redeemable Preferred Stock issued and outstanding as of March 18, 2010.

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(2) The address of each listed director and executive officer is c/o Strategic Hotels & Resorts, Inc., 200 W. Madison Street, Suite 1700, Chicago, Illinois 60606.

(3) Total includes 446,531 vested stock options with an exercise price of $20.40. Does not include 223,266 unvested stock options with an exercise price of $20.40.

(4) Mr. Fisher is a general partner of NF Associates that owns the reported securities. Mr. Fisher disclaims beneficial ownership of the reported securities, except to the extent of his pecuniary interest therein.

(5) Messrs. Gellein and Reilly were elected to the Board, effective August 26, 2009.

(6) Includes common stock held indirectly.

(7) Mr. Mead s employment with the Company ended on March 8, 2010. Includes common stock held indirectly and common stock held by Mr. Mead as trustee. Mr. Mead disclaims beneficial ownership of the reported securities, except to the extent of his pecuniary interest therein. Also includes 66,424 vested stock options with an exercise price of $20.24 and 148,805 vested stock options with an exercise price of $13.44.

(8) Other than the information relating to its percentage ownership of our common stock, based solely on information contained in a Schedule 13G/A filed with the SEC on February 3, 2010, by The Vanguard Group, Inc., or Vanguard. Vanguard s address is 100 Vanguard Blvd., Malvern, PA 19355. In the Vanguard Schedule 13G/A, Vanguard reported sole voting power and shared dispositive power of 97,199 shares and sole dispositive power of 6,398,677 shares.

(9) Other than the information relating to its percentage ownership of our common stock, based solely on information contained in a Schedule 13G/A filed with the SEC on February 12, 2010 by (i) High Rise Partners II, L.P., (ii) High Rise Partners II (a) L.P., (iii) High Rise Institutional Partners, L.P., (iv) Cedar Bridge Realty Fund, L.P., (v) Cedar Bridge Institutional Fund, L.P. (vi) High Rise Capital Advisors, LLC, (vii) Bridge Realty Advisors, LLC, (viii) David O Connor and (ix) Charles Fitzgerald, collectively, High Rise. High Rise s address is 535 Madison Avenue, New York, NY 10022. The High Rise Schedule 13G/A reported beneficial ownership as follows: High Rise Partners II, L.P. reported shared voting power and shared dispositive power of 2,227,401 shares; High Rise Partners II (a), L.P. reported shared voting power and shared dispositive power of 415,949 shares; High Rise Institutional Partners, L.P. reported shared voting power and shared dispositive power of 2,260,400 shares; Cedar Bridge Realty Fund, L.P. reported shared voting power and shared dispositive power of 335,100 shares; Cedar Bridge Institutional Fund, L.P. reported shared voting power and shared dispositive power of 304,700 shares; High Rise Capital Advisors, L.L.C. reported shared voting power and shared dispositive power of 5,534,550 shares; Bridge Realty Advisors, LLC reported shared voting power and shared dispositive power of 639,800 shares; and David O Connor and Charles Fitzgerald each reported shared voting power and shared dispositive power of 5,543,550 shares.

(10) Other than the information relating to its percentage ownership of our common stock, based solely on information contained in a Schedule 13D filed with the SEC on July 20, 2009, by Vector Group Ltd., or Vector. Vector s address is 100 S.E. Second Street, Miami, FL 33131. In the Vector Schedule 13D, Vector reported sole voting power and sole dispositive power of 5,333,526 shares.

(11) Other than the information relating to its percentage ownership of our common stock, based solely on information contained in a Schedule 13G filed with the SEC on January 29, 2010, by BlackRock, Inc., or BlackRock. BlackRock s address is 40 East 52nd Street, New York, NY 10022. In the BlackRock Schedule 13G, BlackRock reported sole voting power and sole dispositive power of 4,983,684 shares.

(12) Other than the information relating to its percentage ownership of our common stock, based solely on information contained in a Schedule 13G filed with the SEC on January 4, 2010, by (i) Harbinger Capital Partners Master Fund I, Ltd. (address: c/o International Fund Services (Ireland) Limited, Third Floor, Bishop s Square, Redmond s Hill, Dublin 2, Ireland), (ii) Harbinger Capital Partners LLC, (iii) Harbinger Capital Partners Special Situations Fund, L.P., (iv) Harbinger Capital Partners Special Situations GP, LLC, (v) Global Opportunities Breakaway Ltd. (address: c/o Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, Cayman Islands KY1-1104), (vi) Harbinger Capital Partners II LP, (vii) Harbinger Capital Partners II GP LLC, (viii) Harbinger Holdings, LLC and (ix) Philip Falcone, collectively Harbinger. Unless otherwise indicated, the address for each of the Harbinger entities is 450 Park Avenue, 30th Floor, New York, NY 10022. The Harbinger Schedule 13G reported beneficial ownership as follows: Harbinger Capital Partners Master Fund I, Ltd. reported shared voting power and

shared dispositive power of 832,300 shares; Harbinger Capital Partners LLC reported shared voting power and shared dispositive power of 832,300 shares; Harbinger Capital Partners Special Situations Fund, L.P. reported shared voting power and shared dispositive power of 2,815,400 shares; Harbinger Capital Partners Special Situations GP, LLC reported shared voting power and shared dispositive power of 2,815,400 shares; Global Opportunities Breakaway Ltd. reported shared voting power and shared dispositive power of 557,300 shares; Harbinger Capital Partners II LP reported shared voting power and shared dispositive power of 557,300 shares; Harbinger Capital Partners II GP LLC reported shared voting power and shared dispositive power of 557,300 shares; Harbinger Holdings, LLC reported shared voting power and shared dispositive power of 3,647,700 shares; and Mr. Falcone reported shared voting power and shared dispositive power of 4,205,000 shares.

(13) Other than the information relating to its percentage ownership of our common stock, based solely on information contained in a Schedule 13D filed with the SEC on October 6, 2008, by (i) Cascade Investment, L.L.C. (address: 2365 Carillon Point, Kirkland, Washington 98033) and (ii) William H. Gates (address: One Microsoft Way, Redmond, Washington 98052), collectively, Cascade. In the Cascade 13D, each of Cascade Investment, L.L.C. and William H. Gates reported sole voting power and sole dispositive power of 4,190,000 shares.

(14) Other than the information relating to its percentage ownership of our common stock, based solely on information contained in a Schedule 13G filed with the SEC on February 4, 2010, by Vanguard Specialized Funds Vanguard REIT Index Fund, or Vanguard REIT. Vanguard REIT s address is 100 Vanguard Blvd., Malvern, PA 19355. In the Vanguard REIT Schedule 13G, Vanguard REIT reported sole voting power of 3,771,412 shares.

TRANSACTIONS WITH RELATED PERSONS

Cory Warning, the son-in-law of Mr. Geller, serves as Vice President, Development for the Company. Mr. Warning s base salary is currently $170,000 per annum. Mr. Warning received a cash bonus of $49,200 under the Company bonus program in March 2010 with respect to fiscal year 2009. Mr. Warning received a holiday award of $17,500 in January 2009. Mr. Warning received a 2010 grant of RSUs on February 25, 2010 and a 2009 grant of 18,750 RSUs in March, 2009.

On February 12, 2008, the Company invested $1,200,000 of a $2,000,000 subscription in Luxury Leisure Properties International, L.L.C. (LLPI), a newly-formed venture with the objectives of purchasing, developing and arranging for the operations of luxury resort and tourist-oriented destination properties in multiple locations throughout North America, Central America and Europe. Luca Franco, the son-in-law of Laurence Geller, the Company s President and CEO, was one of the founders of and served as executive vice president development of LLPI. Upon formation, the Company owned 40%, Mr. Franco owned 10% and unrelated parties owned the remaining interests in the venture.

The Company s interest in the LLPI venture was redeemed in May 2009, after which time, Mr. Franco owned 40% and the other remaining member owned 60% of LLPI. As part of the redemption, the Company received a return of $185,000 of capital and the remaining $190,000 in the Company s capital account was re-allocated to the remaining members, including Mr. Franco. At the time of the Company s redemption, LLPI also distributed $181,000 to each of the remaining members, including Mr. Franco.

From March 2009 through August 2009, LLPI, which has changed its name to Punta Mita Properties, LLC, provided asset management services to Resort Club Punta Mita, a joint venture with two unaffiliated parties, for a fee of $25,000 per month. Beginning in September 2009, the fees for the asset management services were reduced to a $10,000 base fee per month, with an opportunity to earn an additional $15,000 per month if certain sales occur. Effective March 31, 2010, the asset management services were terminated and neither the Company nor Resort Club Punta Mita has any continuing relationship with Punta Mita Properties, LLC.

On August 16, 2007, the Company entered into a consulting agreement with Sir David M.C. Michels, a member of the Board. On August 21, 2008, the Company amended the agreement (as amended, the Consulting Agreement). Under the terms of the agreement, Mr. Michels provided certain consulting services to the Company relating to its European strategy, including pursuing acquisition opportunities, facilitating relationships and advising on current European operations.

On August 5, 2009, the Company and Mr. Michels agreed to terminate the Consulting Agreement. Pursuant to the termination agreement dated August 5, 2009 (the termination agreement together with the Consulting Agreement is hereinafter referred to as the Agreements), Mr. Michels served as a consultant to the Company until December 31, 2009 (the Consulting Agreement Termination Date) and received $125,000, in consideration of (i) Mr. Michels consulting services through the Consulting Agreement Termination Date and (ii) contractually provided termination fees and the waiver of certain other benefits to which Mr. Michels was otherwise entitled to under the terms of the Consulting Agreement. Mr. Michels shall not receive any additional compensation or equity grants under the terms of the Agreements. All prior grants made by the Company to Mr. Michels pursuant to the Consulting Agreement shall continue to vest provided the conditions to such vesting contained in the Consulting Agreement are satisfied.

Pursuant to our code of business conduct and ethics, without the approval of our audit committee, we will not and have not:

- engage in any material transaction, including one that involves the acquisition or sale of assets, with Strategic Hotel Capital, L.L.C.;

- acquire from or sell to any of our directors, officers, employees or significant stockholders (i.e., holds 5% of our outstanding stock) or any immediate family member (including a significant other) of any of the foregoing, which we refer to collectively as related persons, or any entity in which any of our related persons is employed or has with other related persons a collective interest of more than 5%, any assets or other property;

- make any permissible loan to or borrow from any of our related persons, or any entity in which any of our related persons, is employed or has with other related persons a collective interest of more than 5% or, in the case of a partnership, for which any of them serves as a general partner or is otherwise associated; or

- engage in any other transaction, including a financial transaction, arrangement or relationship, or series of any of the forgoing, with any of our related persons, or any entity in which any of our related persons is employed or has with other related persons a collective interest of more than 5% or, in the case of a partnership, for which any of them serves as a general partner or is otherwise associated.

PROPOSAL 2

RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

Deloitte & Touche LLP, which has been our independent audit firm since 2002, has been appointed by our audit committee as our independent auditors for the fiscal year ending December 31, 2010, and our audit committee has further directed that the appointment of such accountants be submitted for ratification by the stockholders at the annual meeting. We have been advised by Deloitte & Touche LLP that neither that firm nor any of its associates has any relationship with us or our subsidiaries other than the usual relationship that exists between independent certified public accountants and clients. Representatives of Deloitte & Touche LLP are expected to be present at the annual meeting and will be provided an opportunity to make a statement and to respond to appropriate inquiries from stockholders.

Stockholder ratification of the appointment of Deloitte & Touche LLP as our independent auditors is not required by our charter or otherwise. However, our Board is submitting the appointment of Deloitte & Touche LLP to the stockholders for ratification as a matter of what it considers to be good corporate practice. Even if the appointment is ratified, our Board or audit committee in its discretion may direct the appointment of a different independent accounting firm at any time during the year if our Board or audit committee determined that such a change would be in our and our stockholders best interests.

Principal Accounting Firm Fees

Aggregate fees we were billed for the fiscal years ended December 31, 2009 and 2008 by our principal accounting firm, Deloitte & Touche LLP, were as follows (in thousands of dollars):

	2008	2009
Audit fees (a)	$ 2,216	$ 2,040
Audit-related fees (b)	0	100
Total audit and audit-related fees	2,216	2,140
Tax fees (c)	442	440
All other fees (d)	2	2
Total	$ 2,660	$ 2,582

(a) Audit fees include amounts billed to us related to the audit of our consolidated financial statements, reviews of our quarterly financial statements, audits of our subsidiaries required by statute or otherwise, and assistance with SEC registration statements.

(b) There were no audit-related fees billed to the Company during 2008. Audit-related fees billed to the Company during 2009 include registration statement and asset sale related services.

(c) Tax fees include amounts billed to us primarily for tax planning and consulting, tax compliance, preparation and review of federal, state and local tax returns, and tax fees related to REIT tax matters.

(d) Other fees include amounts billed to us for use of Deloitte s accounting research data base.

The audit committee of our Board was advised of the services provided by our independent auditors that are unrelated to the audit of the annual fiscal year end financial statements and the review of interim financial statements, has considered whether the provision of these services is compatible with maintaining our independent auditors independence, and has determined such services for fiscal 2009 were compatible.

Policy on Audit Committee Pre-Approval of Audit and Non-Audit Services of Independent Auditors

The audit committee of our Board is responsible for appointing, setting compensation and overseeing the work of our independent accountants. The audit committee s pre-approval policy provides for categorical pre-approval of specified audit and permissible non-audit services and requires the specific pre-approval by the audit committee, prior to engagement, of such services.

In addition, pursuant to the policy, we will not retain our independent accountants for non-audit services, other than those specifically listed in the policy, unless (i) in the opinion of our senior management, our independent accountants possess unique knowledge or technical expertise that is superior to that of other potential providers, (ii) the approval of the chairman of our audit committee and our CFO are obtained prior to the retention and (iii) the retention will not impair the independence of the independent accountants.

The audit committee has delegated authority to pre-approve all audit and non-audit services to the chairman of the audit committee, provided such services do not, in the aggregate, exceed $100,000 in any quarter. The chairman shall report any pre-approval decisions promptly to the audit committee no later than at its next quarterly meeting. The audit committee does not delegate to management its responsibilities to pre-approve services to be performed by the independent accountants.

In accordance with our audit committee pre-approval policy, all audit and non-audit services performed for us by our independent accountants were pre-approved by the audit committee, which concluded that the provision of such services by Deloitte & Touche LLP was compatible with the maintenance of that firm s independence in the conduct of its auditing functions.

Vote Required; Recommendation

The affirmative vote of a majority of the votes cast at the annual meeting is required to ratify the appointment of Deloitte & Touche LLP as our independent auditors. **Our Board unanimously recommends that you vote for the ratification of Deloitte & Touche LLP as our independent auditors.**

Report of the Audit Committee

Our Board s audit committee carries out oversight functions with respect to the preparation, review and audit of our financial statements, our system of internal controls and the qualifications, independence and performance of our internal auditor consultants and independent auditors and operates under a written charter adopted by the Board. The charter can be viewed, together with any future changes that may occur, on our website at www.strategichotels.com. The audit committee has the sole authority and responsibility to select, evaluate and, as appropriate, replace our independent auditors. The audit committee members are independent within the meaning of the applicable New York Stock Exchange listing standards and Rule 10A-3 under the Securities Exchange Act of 1934, as amended.

Our management is responsible for the development, maintenance and evaluation of internal controls and procedures and the financial reporting system, the maintenance of appropriate accounting and financial reporting principles or policies and the preparation of financial statements in accordance with generally accepted accounting principles. Our independent auditors perform an independent audit of our consolidated financial statements in accordance with generally accepted auditing standards and issue a report thereon. The audit committee s responsibility is to monitor and oversee the foregoing functions.

The audit committee has met and held discussions with management and the independent auditors with respect to our consolidated financial statements for fiscal year 2009 and related matters. Management advised the audit committee that our consolidated financial statements were prepared in accordance with generally accepted accounting principles and the audit committee has reviewed and discussed the consolidated financial statements with management and our independent auditors, Deloitte & Touche LLP. Our independent auditors presented to and reviewed with the audit committee the matters required to be discussed by statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1. AU 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T. Our independent auditors also provided to the audit committee the written disclosures and the letter from our independent auditors required by applicable requirements of the Public Company Accounting Oversight Board and in connection therewith the audit committee discussed with the independent auditors their views as to their independence. The audit committee also reviewed, among other

things, the audit and non-audit services performed by, and the amount of fees paid for such services to, Deloitte & Touche LLP. The audit committee meetings include, whenever appropriate, executive sessions with our independent auditors without the presence of our management.

In undertaking its oversight function, the audit committee relied, without independent verification, on management s representation that the financial statements have been prepared with integrity and objectivity and in conformity with accounting principles generally accepted in the United States and on the representations of the independent auditors included in their report on our financial statements. The audit committee is not, however, professionally engaged in the practice of accounting or auditing and does not provide any expert or other special assurance or professional opinion as to the sufficiency of the external or internal audits, whether the Company s financial statements are complete and accurate and are in accordance with generally accepted accounting principles, or on the effectiveness of the system of internal control.

Based on the audit committee s considerations, discussions with management and the independent auditors as described above, the audit committee recommended to the Board that the audited consolidated financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2009 for filing with the SEC.

Respectfully submitted,

Strategic Hotels & Resorts, Inc. Audit Committee

Robert P. Bowen (Chairman)

Kenneth Fisher

James A. Jeffs

Richard D. Kincaid

William A. Prezant

ANNUAL REPORT

Upon written request, we will provide any stockholder, without charge, a copy of our annual report on Form 10-K for the year ended December 31, 2009 filed with the SEC, including the financial statements and schedules, but without exhibits. Direct requests to Secretary, Strategic Hotels & Resorts, Inc., 200 W. Madison Street, Suite 1700, Chicago, Illinois 60606, (312) 658-5000.

OTHER MATTERS

Our management does not know of any other matters to come before the annual meeting. If, however, any other matters do come before the annual meeting, it is the intention of the persons designated as proxies to vote in accordance with their discretion on such matters.

STOCKHOLDER PROPOSALS

If you wish to submit a stockholder proposal pursuant to Rule 14a-8 under the Exchange Act for inclusion in our proxy statement and proxy card for our 2011 annual meeting of stockholders, you must submit the proposal to our Secretary no later than December 10, 2010, in accordance with Rule 14a-8. In addition, if you desire to bring business (including director nominations) before our 2011 annual meeting, you must comply with our bylaws, which currently require that you provide written notice of such business to our Secretary no earlier than November 10, 2010, and no later than 5:00 p.m. (Central Time), December 10, 2010. Among other requirements,

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stockholder proposals must set forth (1) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (2) the name and address of the stockholder proposing such business, (3) the number of shares of common stock beneficially owned by such stockholder and (4) any material interest of such stockholder in such business. For additional requirements, stockholders should refer to our bylaws, Article II, Section 11, a current copy of which may be obtained from our Secretary.

HOUSEHOLDING

We have adopted a procedure called householding under which we will deliver only one copy of our Notice of Internet Availability of Proxy Materials to multiple stockholders who share the same address (if they appear to be members of the same family) unless we have received contrary instructions from an affected stockholder. We will deliver promptly upon written or oral request a separate copy of the annual report and this proxy statement to any stockholder at a shared address to which a single copy of either of those documents was delivered. If you are a stockholder, share an address and last name with one or more other stockholders and would like to revoke your householding consent or you are a stockholder eligible for householding and would like to participate in householding, please contact Broadridge Householding Department by phone at 1-800-542-1061 or by mail to Broadridge Householding Department, 51 Mercedes Way, Edgewood, New York 11717. You will be removed from the householding program within 30 days of receipt of the revocation of your consent. A number of brokerage firms have also instituted householding. If you hold your shares in street name, please contact your bank, broker or other holder of record to request information about householding.

200 W. MADISON

SUITE 1700

CHICAGO, IL 60606

VOTE BY INTERNET - www.proxyvote.com
Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time on May 26, 2010. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

VOTE BY TELEPHONE - 1-800-690-6903
Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time on May 26, 2010. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL
Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

Your Internet or telephone vote authorizes the named proxies to vote the shares in the same manner as if you marked, signed and returned your proxy card.

ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS
If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

M19523-P89085 KEEP THIS PORTION FOR YOUR RECORDS

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED. DETACH AND RETURN THIS PORTION ONLY

STRATEGIC HOTELS & RESORTS INC.	**For All**	**Withhold All**	**For All Except**	To withhold authority to vote for any individual nominee(s), mark For All Except and write the number(s) of the nominee(s) on the line below.
Proposal 1 - ELECTION OF DIRECTORS	¨	¨	¨	

The Board of Directors recommends a vote FOR all nominees.

NOMINEES:

06) Richard D. Kincaid

01) Robert P. Bowen	
02) Kenneth Fisher	07) Sir David M.C. Michels
03) Raymond L. Gellein, Jr.	08) Eugene F. Reilly
04) Laurence S. Geller	09) William A. Prezant
05) James A. Jeffs	

Proposal 2 - RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

	For	Against	Abstain
The Board of Directors recommends a vote FOR ratification of the appointment of Deloitte & Touche LLP as independent registered public accounting firm for the fiscal year ending December 31, 2010.	¨	¨	¨

Proposal 3 - TO TRANSACT SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE ANNUAL MEETING OR ANY POSTPONEMENT OR ADJOURNMENT THEREOF.

For address changes and/or comments, please check this box and write them on the back where indicated. ¨

Please indicate if you plan to attend this meeting. ¨ ¨

Yes **No**

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name by authorized officer.

Signature [PLEASE SIGN WITHIN BOX]	Date	Signature (Joint Owners)	Date

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Important Notice Regarding the Availability of Proxy Materials for the Annual Stockholder Meeting:

The Notice and Proxy Statement and 2009 Annual Report are available at www.proxyvote.com.

M19524-P89085

PROXY **PROXY**

REVOCABLE PROXY OF HOLDERS OF COMMON STOCK

THIS PROXY IS SOLICITED BY THE BOARD OF DIRECTORS OF STRATEGIC HOTELS & RESORTS, INC.

FOR USE ONLY AT THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MAY 27, 2010 AND AT ANY POSTPONEMENT OR ADJOURNMENT THEREOF.

By signing this proxy card, as the holder of common stock, par value $0.01 per share (the Common Stock) of Strategic Hotels & Resorts, Inc., a Maryland corporation (the Company), you hereby appoint Laurence S. Geller and Paula C. Maggio and each of them, with full powers of substitution, as proxies to vote the shares of Common Stock which you are entitled to vote at the 2010 Annual Meeting of Stockholders of the Company to be held at the Fairmont Chicago, Millennium Park, 200 North Columbus Drive, Chicago, IL 60601 on Thursday, May 27, 2010 at 10:00 a.m. Central Time, or any postponement or adjournment thereof (the Annual Meeting).

This proxy will be voted as specified by you. If no choice is specified, the proxy will be voted according to the Board of Director Recommendations indicated on the reverse side, and according to the discretion of the proxy holders for any other matters that may properly come before the meeting or any postponement or adjournment thereof.

You may revoke or change your proxy at any time prior to its use at the Annual Meeting by giving the Company written direction to revoke it, by authorizing a new proxy or by attending the Annual Meeting and voting in person. Your attendance at the Annual Meeting will not by itself revoke a proxy given by you. Written notice of revocation or a subsequent proxy should be sent to: Strategic Hotels & Resorts, Inc., 200 West Madison Street, Suite 1700, Chicago, Illinois 60606, Attention: Secretary, so as to be delivered before the taking of the vote at the Annual Meeting.

Returned proxy cards or proxies authorized by phone or Internet will be voted (1) as specified on the matters listed on the reverse side; (2) in accordance with the Board of Directors recommendations where no specification is made; and (3) in accordance with the discretion of the proxies on any other matters that may properly come before the meeting.

The undersigned hereby acknowledges receipt of the notice of the Annual Meeting and the proxy statement furnished herewith.

Address Changes/Comments:

(If you noted any Address Changes/Comments above, please mark corresponding box on the reverse side.)

(Continued and to be signed on the reverse side.)

D>

Year Ended December 31,	2010	2009	2008
(in thousands)			
Balance, beginning of period	$83,347	$14,545	$3,412
Additions	93,656	104,610	24,060
Dispositions	(40,674)	(17,858)	(12,002)
Valuation adjustments in the period, net	(28,674)	(17,950)	(925)
Balance, end of period	$107,655	$83,347	$14,545

Other assets acquired through foreclosure consist primarily of properties acquired as a result of, or in-lieu-of, foreclosure. Properties or other assets (primarily repossessed assets formerly leased) are classified as other real estate owned and other repossessed property and are reported at the lower of carrying value or fair value, less estimated costs to sell the property. Costs relating to the development or improvement of the assets are capitalized and costs relating to holding the assets are charged to expense. The Company had $107.7 million, $83.3 million and $14.5 million, respectively of such assets at December 31, 2010, 2009 and 2008. At December 31, 2010, the Company held 98 other real estate owned properties compared to 56 at December 31, 2009. When significant adjustments were based on unobservable inputs, such as when a current appraised value is not available or management determines the fair value of the collateral is further impaired below appraised value and there is no observable market price, the resulting fair value measurement has been categorized as a Level 3 measurement.

Capital Resources

The Company and the Banks are subject to various regulatory capital requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements could trigger certain mandatory or discretionary actions that, if undertaken, could have a direct material effect on the Company s business and financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Banks must meet specific capital guidelines that involve qualitative measures of their assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are

also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

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Quantitative measures established by regulation to ensure capital adequacy require the Company and the Banks to maintain minimum amounts and ratios of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I leverage (as defined) to average assets (as defined). As of December 31, 2010, the Company and the Banks met all capital adequacy requirements to which they are subject.

As of December 31, 2010, the Company and each of its subsidiaries met the minimum capital ratio requirements necessary to be classified as well-capitalized, as defined by the banking agencies. To be categorized as well-capitalized, the Banks must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table below. In addition, memoranda of understanding to which the Company s bank subsidiaries are subject require them to maintain higher Tier 1 leverage ratios than otherwise required to be considered well-capitalized. At December 31, 2010, the capital levels at each of the banks exceeded these elevated requirements.

The actual capital amounts and ratios for the Banks and Company as of December 31 are presented in the following table:

	Total Capital	Tier 1 Capital	Risk-Weighted Assets	Tangible Average Assets	Total Capital Ratio	Tier 1 Capital Ratio	Tier 1 Leverage Ratio
			(dollars in thousands)				
December 31, 2010							
WAL (Consolidated)	$ 654,011	$ 591,633	$ 4,941,057	$ 6,198,903	13.2%	12.0%	9.5%
Bank of Nevada	278,697	250,907	2,177,357	2,705,631	12.8%	11.5%	9.3%
Western Alliance Bank	204,650	162,964	1,492,491	1,955,696	13.7%	10.9%	8.3%
Torrey Pines Bank	170,342	135,126	1,215,825	1,453,686	14.0%	11.1%	9.3%
Well-capitalized ratios					**10.0%**	**6.0%**	**5.0%**
Minimum capital ratios					**8.0%**	**4.0%**	**4.0%**
December 31, 2009							
WAL (Consolidated)	$ 666,287	$ 547,746	$ 4,632,891	$ 5,756,917	14.4%	11.8%	9.5%
Bank of Nevada	272,703	183,639	2,286,178	2,755,559	11.9%	8.0%	6.7%
Alliance Bank of Arizona	97,141	68,801	820,572	1,107,836	11.8%	8.4%	6.2%
Torrey Pines Bank	125,870	94,073	948,241	1,116,767	13.3%	9.9%	8.4%
First Independent Bank	54,669	44,058	444,981	526,746	12.3%	9.9%	8.4%
Alta Alliance Bank	23,552	22,105	114,528	174,588	20.6%	19.3%	12.7%
Well-capitalized ratios					10.0%	6.0%	5.0%
Minimum capital ratios					8.0%	4.0%	4.0%

Additionally, State of Nevada banking regulations restrict distribution of the net assets of Bank of Nevada because such regulations require the sum of the bank s stockholders equity and reserve for loan losses to be at least 6% of the

average of the bank s total daily deposit liabilities for the preceding 60 days. As a result of these regulations, approximately $145.2 million and $133.9 million of Bank of Nevada s stockholders equity was restricted at December 31, 2010 and 2009, respectively.

For information on the Companies capital raises, see Item 5 Market for Registrants Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities Sales of Unregistered Securities.

JUNIOR SUBORDINATED AND SUBORDINATED DEBT

The Company has formed or acquired through mergers six statutory business trusts, which exist for the exclusive purpose of issuing Cumulative Trust Preferred Securities. All of the funds raised from the issuance of these securities were passed to the Company and are reflected in the accompanying balance sheet as junior subordinated debt in the amount of $43.0 million. The junior subordinated debt has contractual balances and maturity dates as follows:

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Name of Trust	Maturity	December 31, 2010	2009
BankWest Nevada Capital Trust II	2033	**15,464**	15,464
First Independent Capital Trust I	2034	**7,217**	7,217
Intermountain First Statutory Trust I	2034	**10,310**	10,310
WAL Trust No. 1	2036	**20,619**	20,619
WAL Statutory Trust No. 2	2037	**5,155**	5,155
WAL Statutory Trust No. 3	2037	**7,732**	7,732
		$ 66,497	$ 66,497
Unrealized gains on trust preferred securities measured at fair value, net		**(23,463)**	(24,059)
		$ 43,034	$ 42,438

The weighted average contractual rate of the junior subordinated debt was 4.34% and 4.37% as of December 31, 2010 and 2009, respectively.

In the event of certain changes or amendments to regulatory requirements or Federal tax rules, the debt is redeemable in whole. The obligations under these instruments are fully and unconditionally guaranteed by the Company and rank subordinate and junior in right of payment to all other liabilities of the Company. The trust preferred securities qualify as Tier 1 Capital for the Company, subject to certain limitations, with the excess being included in total capital for regulatory purposes. As of December 31, 2009 the Company had $60 million of subordinated debt with a weighted average contractual rate of 3.09%. The Company paid this debt in 2010 and recorded a gain on extinguishment of debt of $3.0 million.

Contractual Obligations and Off-Balance Sheet Arrangements

The Company enters into contracts for services in the ordinary course of business that may require payment for services to be provided in the future and may contain penalty clauses for early termination of the contracts. To meet the financing needs of customers, the Company has financial instruments with off-balance sheet risk, including commitments to extend credit and standby letters of credit. The Company has also committed to irrevocably and unconditionally guarantee the following payments or distributions with respect to the holders of preferred securities to the extent that BankWest Nevada Trust I, BankWest Nevada Trust II, Intermountain First Statutory Trust I, and WAL Trust No. 1 have not made such payments or distributions: (1) accrued and unpaid distributions, (2) the redemption price, and (3) upon a dissolution or termination of the trust, the lesser of the liquidation amount and all accrued and unpaid distributions and the amount of assets of the trust remaining available for distribution. The Company does not believe that these off-balance sheet arrangements have or are reasonably likely to have a material effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources. However, there can be no assurance that such arrangements will not have a future effect.

The following table sets forth our significant contractual obligations as of December 31, 2010.

	Payments Due by Period (in thousands)				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	After 5 Years
			(in thousands)		
Time deposit maturities	$ 1,445,303	$ 1,363,424	$ 80,063	$ 1,816	$ -
Long-term borrowed funds	75,000	-	-	-	75,000

Junior subordinated deferrable interest debentures	43,034	-	-	-	43,034
Purchase obligations	3,910	2,475	1,435	-	-
Operating lease obligations	24,831	4,917	8,724	4,716	6,474
Total	$ 1,592,078	$ 1,370,816	$ 90,222	$ 6,532	$ 124,508

Off balance sheet commitments associated with outstanding letters of credit, commitments to extend credit, and credit card guarantees as of December 31, 2010 are summarized below. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements.

	Total Amounts Committed	Amount of Commitment Expiration Per Period			
		Less Than 1 Year	1-3 Years	3-5 Years	After 5 Years
			(in thousands)		
Commitments to extend credit	$ 702,336	$ 482,320	$ 85,638	$ 43,154	$ 91,224
Credit card commitments and guarantees	322,798	322,798	-	-	-
Standby letters of credit	28,013	-	27,858	155	-
Total	$ 1,053,147	$ 805,118	$ 113,496	$ 43,309	$ 91,224

The following table sets forth certain information regarding FHLB and FRB advances and customer repurchase agreements.

	December 31,		
	2010	2009	2008
		($ in thousands)	
FHLB and FRB Advances and other:			
Maximum month-end balance	$ 20,000	$ 635,500	$955,100
Balance at end of year	-	-	586,120
Average balance	5,367	228,951	643,698
Customer Repurchase Accounts:			
Maximum month-end balance	211,046	307,367	345,182
Balance at end of year	109,409	223,269	321,004
Average balance	126,511	279,477	252,611
Total Short-Term Borrowed Funds	$ 109,409	$ 223,269	$907,124
Weighted average interest rate at end of year	0.23%	1.02%	0.85%
Weighted average interest rate during year	0.81%	0.99%	2.20%

Short-Term Borrowed Funds. The Company from time to time utilizes short-term borrowed funds to support short-term liquidity needs generally created by increased loan demand. The majority of these short-term borrowed funds consist of advances from the FHLB and FRB and customer repurchase agreements. The Company s borrowing capacity at FHLB and FRB is determined based on collateral pledged, generally consisting of securities and loans. In addition, the Company has borrowing capacity from other sources pledged by securities, including securities sold under agreements to repurchase, which are reflected at the amount of cash received in connection with the transaction, and may require additional collateral based on the fair value of the underlying securities. At December 31, 2010, total

short-term borrowed funds consisted of customer repurchases of $109.4 million. No advances were outstanding from the FHLB or FRB at December 31, 2010. At December 31, 2009, total short-term borrowed funds were $223.3 million, with a weighted average interest rate at year end of 1.02%. compared to total short-term borrowed funds of $907.1 million as of December 31, 2008 with a weighted average interest rate at year end of 0.85%. The decrease of $113.9 million in short-term borrowings for 2010 compared to 2009 is due to the Company s increased liquidity as a result of successful growth in deposits during the year and capital raise in the third quarter of 2010.

Critical Accounting Policies

The Notes to Consolidated Financial Statements contain a discussion of our significant accounting policies, including information regarding recently issued accounting pronouncements, our adoption of such policies and the related impact of their adoption. We believe that certain of these policies, along with various estimates that we are required to make in recording our financial transactions, are important to have a complete understanding of our financial position. In addition, these estimates require us to make complex and subjective judgments, many of which include matters with a high degree of uncertainty. The following is a summary of these critical accounting policies and significant estimates.

Allowance for credit losses

Credit risk is inherent in the business of extending loans and leases to borrowers. Like other financial institutions, the Company must maintain an adequate allowance for credit losses. The allowance for credit losses is established through a provision for credit losses charged to expense. Loans are charged against the allowance for credit losses when Management believes that the contractual principal or interest will not be collected. Subsequent recoveries, if any, are

credited to the allowance. The allowance is an amount believed adequate to absorb probable losses on existing loans that may become uncollectable, based on evaluation of the collectability of loans and prior credit loss experience, together with other factors. The Company formally re-evaluates and establishes the appropriate level of the allowance for credit losses on a quarterly basis.

Our allowance for credit loss methodology incorporates several quantitative and qualitative risk factors used to establish the appropriate allowance for credit losses at each reporting date. Quantitative factors include our historical loss experience, delinquency and charge-off trends, collateral values, changes in the level of nonperforming loans and other factors. Qualitative factors include the economic condition of our operating markets and the state of certain industries. Specific changes in the risk factors are based on perceived risk of similar groups of loans classified by collateral type, purpose and terms. An internal one-year and three-year loss history are also incorporated into the allowance calculation model. Due to the credit concentration of our loan portfolio in real estate secured loans, the value of collateral is heavily dependent on real estate values in Nevada, Arizona and California, which have declined significantly in recent periods. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic or other conditions. In addition, the FDIC, and state banking regulatory agencies, as an integral part of their examination processes, periodically review our subsidiary banks allowances for credit losses, and may require us to make additions to our allowance based on their judgment about information available to them at the time of their examinations. Management regularly reviews the assumptions and formulae used in determining the allowance and makes adjustments if required to reflect the current risk profile of the portfolio.

The allowance consists of specific and general components. The specific allowance relates to impaired loans. In general, impaired loans include those where interest recognition has been suspended, loans that are more than 90 days delinquent but because of adequate collateral coverage income continues to be recognized, and other criticized and classified loans not paying substantially according to the original contract terms. For such loans, an allowance is established when the discounted cash flows, collateral value or observable market price of the impaired loan are lower than the carrying value of that loan, pursuant to FASB ASC 310 *Receivables* (ASC 310). Loans not collateral dependent are evaluated based on the expected future cash flows discounted at the original contractual interest rate. The amount to which the present value falls short of the current loan obligation will be set up as a reserve for that account or charged-off.

The Company uses an appraised value method to determine the need for a reserve on impaired, collateral dependent loans and further discounts the appraisal for disposition costs. Due to the rapidly changing economic and market conditions of the regions within which we operate, the Company obtains independent collateral valuation analysis on a regular basis for each loan, typically every six months.

The general allowance covers all non-impaired loans and is based on historical loss experience adjusted for the various qualitative and quantitative factors listed above. The change in the allowance from one reporting period to the next may not directly correlate to the rate of change of the nonperforming loans for the following reasons:

1. A loan moving from impaired performing to impaired nonperforming does not mandate an increased reserve. The individual account is evaluated for a specific reserve requirement when the loan moves to impaired status, not when it moves to nonperforming status, and is reevaluated at each subsequent reporting period. Because our nonperforming loans are predominately collateral dependent, reserves are primarily based on collateral value, which is not affected by borrower performance but rather by market conditions.
2. Not all impaired accounts require a specific reserve. The payment performance of the borrower may require an impaired classification, but the collateral evaluation may support adequate collateral coverage. For a number of impaired accounts in which borrower performance has ceased, the collateral coverage is now sufficient because a partial charge off of the account has been taken. In those instances, neither a general reserve nor a specific reserve is assessed.

Although we believe the levels of the allowance as of December 31, 2010 and 2009 were adequate to absorb probable losses in the loan portfolio, a further decline in economic conditions or other factors could result in increasing losses that cannot be reasonably estimated at this time.

Investment securities

Investment securities may be classified as held-to-maturity (HTM), available-for-sale (AFS) or trading. The appropriate classification is initially decided at the time of purchase. Securities classified as held-to-maturity are those debt securities the Company has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or general economic conditions. These securities are carried at amortized cost. The sale of a security within three months of its maturity date or after at least 85 percent of the principal outstanding has been collected is considered a maturity for purposes of classification and disclosure.

Securities classified as AFS or trading are reported as an asset on the Consolidated Balance Sheets at their estimated fair value. As the fair value of AFS securities changes, the changes are reported net of income tax as an element of other comprehensive income (OCI), except for impaired securities. When AFS securities are sold, the unrealized gain or loss is reclassified from OCI to non-interest income. The changes in the fair values of trading securities are reported in non-interest income. Securities classified as AFS are both equity and debt securities the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as AFS would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Company s assets and liabilities, liquidity needs, and regulatory capital considerations.

Interest income is recognized based on the coupon rate and increased by accretion of discounts earned or decreased by the amortization of premiums paid over the contractual life of the security using the interest method. For mortgage-backed securities, estimates of prepayments are considered in the constant yield calculations.

In estimating whether there are any other than temporary impairment losses, management considers 1) the length of time and the extent to which the fair value has been less than amortized cost, 2) the financial condition and near term prospects of the issuer, 3) the impact of changes in market interest rates and 4) the intent and ability of the Company to retain its investment for a period of time sufficient to allow for any anticipated recovery in fair value.

Declines in the fair value of individual debt securities available for sale that are deemed to be other than temporary are reflected in earnings when identified. The fair value of the debt security then becomes the new cost basis. For individual debt securities where the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, the other than temporary decline in fair value of the debt security related to 1) credit loss is recognized in earnings and 2) market or other factors is recognized in other comprehensive income or loss. Credit loss is recorded if the present value of cash flows is less than amortized cost. For individual debt securities where the Company intends to sell the security or more likely than not will not recover all of its amortized cost, the other than temporary impairment is recognized in earnings equal to the entire difference between the securities cost basis and its fair value at the balance sheet date. For individual debt securities that credit loss has been recognized in earnings, interest accruals and amortization and accretion of premiums and discounts are suspended when the credit loss is recognized. Interest received after accruals have been suspended is recognized on a cash basis.

Securities measured at fair value are equity and debt securities for which the Company elected early adoption of FASB ASC 825 *Financial Instruments"*, effective January 1, 2007. Securities for which the fair value measurement classification was made generally were fixed rate with a relatively long duration and low coupon rates. Securities measured at fair value are reported at fair value with unrealized gains and losses included in current period earnings.

Goodwill

The Company recorded as goodwill the excess of the purchase price over the fair value of the identifiable net assets acquired in accordance with applicable guidance. As per this guidance, a two-step process is outlined for impairment testing of goodwill. Impairment testing is generally performed annually, as well as when an event triggering impairment may have occurred. The first step tests for impairment, while the second step, if necessary, measures the impairment. The resulting impairment amount if any is charged to current period earnings as non-interest expense.

Other intangible assets

The Company s intangible assets consist of core deposit intangible assets, investment advisory and trust customer relationship intangibles, and are amortized over periods ranging from 6 to 12 years. The Company evaluates the remaining useful lives of its core deposit intangible assets each reporting period, as required by FASB ASC 350, *Intangibles Goodwill and Other,* to determine whether events and circumstances warrant a revision to the remaining period of amortization. If the estimate of an intangible asset s remaining useful life has changed, the remaining carrying amount of the intangible asset is amortized prospectively over that revised remaining useful life. As a result of current economic conditions, the Company revised its estimates of the useful lives of its core deposit intangibles during the year ended December 31, 2008. The Company made no further changes to these revised lives in 2010 or 2009.

Stock compensation plans

The Company has the 2005 Stock Incentive Plan as amended (the Incentive Plan), which is described more fully in Note 13, Stockholders Equity. Compensation expense for stock options and non-vested restricted stock awards is based on the fair value of the award on the measurement date, which, for the Company, is the date of the grant and is recognized ratably over the service period of the award. Prior to the Company s initial public offering (IPO); the Company used the minimum value method to calculate the fair value of stock options. Subsequent to the Company s IPO, the Company utilizes the Black-Scholes option-pricing model to calculate the fair value of stock options. The fair value of non-vested restricted stock awards is the market price of the Company s stock on the date of grant. Prior to the Company s initial public offering (IPO) the Company used the minimum value method to calculate the fair value of stock options. Subsequent to the IPO, the Company utilizes the Black-Scholes model to calculate the fair value of options.

During the years ended December 31, 2010, 2009 and 2008, the Company granted stock options to the non-executive directors of its subsidiaries. These directors do not meet the definition of an employee under FASB ASC 718 *Compensation*. Accordingly, the Company applies FASB ASC 505 *Equity* to determine the measurement date for options granted to these directors. Therefore, the expense related to these options is re-measured each reporting date until the options are vested.

Income taxes

Western Alliance Bancorporation and its subsidiaries, other than BW Real Estate, Inc., file a consolidated federal tax return. Due to tax regulations, several items of income and expense are recognized in different periods for tax return purposes than for financial reporting purposes. These items represent temporary differences. Deferred taxes are provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and tax credit carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of Management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effect of changes in tax laws and rates on the date of enactment.

Although realization is not assured, the Company believes that the realization of the recognized net deferred tax asset of $79.9 million at December 31, 2010 is more likely than not based on expectations as to future taxable income and based on available tax planning strategies as defined in ASC 740 that could be implemented if necessary to prevent a carry forward from expiring.

The most significant source of these timing differences are the credit loss reserve build and net operating loss carry forwards which account for substantially all of the net deferred tax asset. In general, the Company will need to generate approximately $222 million of taxable income during the respective carryforward periods to fully realize its deferred tax assets.

As a result of the recent losses, the Company is in a three-year cumulative pretax loss position at December 31, 2010. A cumulative loss position is considered significant negative evidence in assessing the realizability of a deferred tax asset. The Company has concluded that there is sufficient positive evidence to overcome this negative evidence. This positive evidence includes Company forecasts, exclusive of tax planning strategies, that show realization of deferred tax assets by the end of 2013 based on current projections. In addition, the Company has evaluated tax planning strategies, including potential sales of businesses and assets in which it could realize the excess of appreciated value over the tax basis of its assets. The amount of deferred tax assets considered realizable, however, could be significantly reduced in the near term if estimates of future taxable income during the carryforward period are significantly lower than forecasted due to deterioration in market conditions.

Based on the above discussion, the net operating loss carryforward of 20 years provides sufficient time to utilize deferred federal and state tax assets pertaining to the existing net operating loss carryforwards and any NOL that would be created by the reversal of the future net deductions that have not yet been taken on a tax return.

We do not anticipate that current market events will adversely impact our ability to realize the future tax benefits of the net deferred tax assets. See Note 8, *Income Taxes* to the Consolidated Financial Statements for further discussion on income taxes.

Liquidity

Liquidity is the ongoing ability to accommodate liability maturities and deposit withdrawals, fund asset growth and business operations, and meet contractual obligations through unconstrained access to funding at reasonable market rates. Liquidity management involves forecasting funding requirements and maintaining sufficient capacity to meet the needs and accommodate fluctuations in asset and liability levels due to changes in our business operations or unanticipated events.

The ability to have readily available funds sufficient to repay fully maturing liabilities is of primary importance to depositors, creditors and regulators. Our liquidity, represented by cash and amounts due from banks, federal funds sold and non-pledged marketable securities, is a result of our operating, investing and financing activities and related cash flows. In order to ensure funds are available when necessary, on at least a quarterly basis, we project the amount of funds that will be required, and we strive to maintain relationships with a diversified customer base. Liquidity

requirements can also be met through short-term borrowings or the disposition of short-term assets. The Company has unsecured borrowing lines at correspondent banks totaling $43 million and $11 million in secured lines form correspondent banks. In addition, loans and securities are pledged to the FHLB providing $748.3 million in borrowing capacity with outstanding letters of credit of

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$72.0 million, leaving $676.3 million in available credit as of December 31, 2010. Loans and securities pledged to the FRB discount window providing $547.0 million in borrowing capacity. As of December 31, 2010, there were no outstanding borrowings from the FRB, thus our available credit totaled $547.0 million.

The Company has a formal liquidity policy, and in the opinion of management, our liquid assets are considered adequate to meet cash flow needs for loan funding and deposit cash withdrawals for the next 90-120 days. At December 31, 2010, there was $1.03 billion in liquid assets comprised of $254.5 million in cash and cash equivalents (including federal funds sold of $0.9 million) and $780.0 million in unpledged marketable securities. At December 31, 2009, the Company maintained $732.2 million in liquid assets comprised of $450.9 million of cash and cash equivalents (including federal funds sold of $3.5 million) and $281.3 million of unpledged marketable securities.

The holding company maintains additional liquidity that would be sufficient to fund its operations and certain nonbank affiliate operations for an extended period should funding from normal sources be disrupted. Since deposits are taken by the bank operating subsidiaries and not by the parent company, parent company liquidity is not dependant on the bank operating subsidiaries deposit balances. In our analysis of parent company liquidity, we assume that the parent company is unable to generate funds from additional debt or equity issuance, receives no dividend income from subsidiaries, and does not pay dividends to shareholders, while continuing to meet nondiscretionary uses needed to maintain operations and repayment of contractual principal and interest payments owed by the parent company and affiliated companies. Under this scenario, the amount of time the parent company and its nonbank subsidiaries can operate and meet all obligations before the current liquid assets are exhausted is considered as part of the parent company liquidity analysis. Management believes the parent company maintains adequate liquidity capacity to operate without additional funding from new sources for over 12 months. The Banks maintain sufficient funding capacity to address large increases in funding requirements, such as deposit outflows. This capacity is comprised of liquidity derived from a reduction in asset levels and various secured funding sources.

On a long-term basis, the Company s liquidity will be met by changing the relative distribution of our asset portfolios, for example, reducing investment or loan volumes, or selling or encumbering assets. Further, the Company can increase liquidity by soliciting higher levels of deposit accounts through promotional activities and/or borrowing from correspondent banks, the FHLB of San Francisco and the FRB. At December 31, 2010, our long-term liquidity needs primarily relate to funds required to support loan originations and commitments and deposit withdrawals which can be met by cash flows from investment payments and maturities, and investment sales if necessary.

The Company s liquidity is comprised of three primary classifications: (i) cash flows provided by operating activities; (ii) cash flows used in investing activities; and (iii) cash flows provided by financing activities. Net cash provided by or used in operating activities consists primarily of net income, adjusted for changes in certain other asset and liability accounts and certain non-cash income and expense items, such as the loan loss provision, investment and other amortization and depreciation. For the years ended December 31, 2010, 2009 and 2008 net cash provided by operating activities was $0.3 million, $74.8 million and $81.0 million, respectively.

Our primary investing activities are the origination of real estate, commercial and consumer loans and purchase and sale of securities. Our net cash provided by and used in investing activities has been primarily influenced by our loan and securities activities. The net increase in loans for the years ended December 31, 2010, 2009 and 2008, was $339.3 million, $112.1 million and $505.4 million, respectively.

Net cash provided by financing activities has been impacted significantly by increased deposit levels. During the years ended December 31, 2010, 2009 and 2008, deposits increased $616.3 million, increased $938.1 million and $105.3 million, respectively.

Fluctuations in core deposit levels may increase our need for liquidity as certificates of deposit mature or are withdrawn before maturity and as non-maturity deposits, such as checking and savings account balances, are withdrawn. Additionally, we are exposed to the risk that customers with large deposit balances will withdraw all or a portion of such deposits, due in part to the FDIC limitations on the amount of insurance coverage provided to depositors. To mitigate the uninsured deposit risk, we have joined the Certificate of Deposit Account Registry Service (CDARS), a program that allows customers to invest up to $50 million in certificates of deposit through one participating financial institution, with the entire amount being covered by FDIC insurance. As of December 31, 2010, we had $357.1 million of CDARS deposits.

As of December 31, 2010, we had $20.0 million of wholesale brokered deposits outstanding. Brokered deposits are generally considered to be deposits that have been received from a registered broker that is acting on behalf of that broker s customer. Often, a broker will direct a customer s deposits to the banking institution offering the highest interest rate available. Federal banking law and regulation places restrictions on depository institutions regarding brokered deposits because of the general concern that these deposits are at a greater risk of being withdrawn and placed on deposit at another institution offering a higher interest rate, thus posing liquidity risk for institutions that gather brokered

deposits in significant amounts. The Company does not anticipate using brokered deposits as a significant liquidity source in the near future.

The Company paid-off $60 million in subordinated debt and a $9 million building loan both owed by Bank of Nevada during 2010. In August 2010, the Company issued $75 million of five-year senior notes to provide additional liquidity for the holding company and increase the ability to downstream capital to the subsidiary banks. There was no other increase in borrowings for the year. Letters of credit outstanding at FHLB increased by $13 million during 2010. These letters of credit are used to collateralize state and municipal deposits and are not direct borrowings but do reduce our borrowing capacity at the FHLB.

Federal and state banking regulations place certain restrictions on dividends paid by the Banks to Western Alliance. The total amount of dividends which may be paid at any date is generally limited to the retained earnings of each Bank. Dividends paid by the Banks to the Company would be prohibited if the effect thereof would cause the respective Bank s capital to be reduced below applicable minimum capital requirements or by regulatory action. In addition, the MOU s presently require prior regulatory approval of the payments of dividends by the banks to Western Alliance.

Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of loss in a financial instrument arising from adverse changes in market prices and rates, foreign currency exchange rates, commodity prices and equity prices. Our market risk arises primarily from interest rate risk inherent in our lending, investing and deposit taking activities. To that end, management actively monitors and manages our interest rate risk exposure. We generally manage our interest rate sensitivity by evaluating re-pricing opportunities on our earning assets to those on our funding liabilities.

Management uses various asset/liability strategies to manage the re-pricing characteristics of our assets and liabilities, all of which are designed to ensure that exposure to interest rate fluctuations is limited to within our guidelines of acceptable levels of risk-taking. Hedging strategies, including the terms and pricing of loans and deposits and management of the deployment of our securities, are used to reduce mismatches in interest rate re-pricing opportunities of portfolio assets and their funding sources.

Interest rate risk is addressed by each Bank s respective Asset and Liability Management Committee, or ALCO, (or its equivalent), which includes members of executive management, senior finance and operations. ALCO monitors interest rate risk by analyzing the potential impact on the net economic value of equity and net interest income from potential changes in interest rates, and considers the impact of alternative strategies or changes in balance sheet structure. We manage our balance sheet in part to maintain the potential impact on economic value of equity and net interest income within acceptable ranges despite changes in interest rates.

Our exposure to interest rate risk is reviewed on at least a quarterly basis by the ALCO. Interest rate risk exposure is measured using interest rate sensitivity analysis to determine our change in economic value of equity in the event of hypothetical changes in interest rates. If potential changes to net economic value of equity and net interest income resulting from hypothetical interest rate changes are not within the limits established by each Bank s Board of Directors, the respective Board of Directors may direct management to adjust the asset and liability mix to bring interest rate risk within board-approved limits.

Economic Value of Equity. We measure the impact of market interest rate changes on the net present value of estimated cash flows from our assets, liabilities and off-balance sheet items, defined as economic value of equity, using a simulation model. This simulation model assesses the changes in the market value of interest rate sensitive financial instruments that would occur in response to an instantaneous and sustained increase or decrease (shock) in market interest rates.

At December 31, 2010, our economic value of equity exposure related to these hypothetical changes in market interest rates was within the current guidelines established by us. The following table shows our projected change in economic value of equity for this set of rate shocks at December 31, 2010.

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Economic Value of Equity

	Interest Rate Scenario (change in basis points from Base)					
	Down 200	**Down 100**	**Base**	**UP 100**	**UP 200**	**Up 300**
Present Value (000 s)						
Assets	$ 6,351,840	$ 6,266,253	$ 6,167,367	$ 6,052,971	$ 5,939,525	$ 5,833,039
Liabilities	$ 5,550,248	$ 5,504,354	$ 5,407,304	$ 5,321,767	$ 5,241,594	$ 5,167,431
Net Present Value	**$ 801,592**	**$ 761,899**	**$ 760,063**	**$ 731,204**	**$ 697,931**	**$ 665,608**
% Change	5.5%	0.2%		-3.8%	-8.2%	-12.4%

The computation of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, asset prepayments and deposit decay, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions we may undertake in response to changes in interest rates. Actual amounts may differ from the projections set forth above should market conditions vary from the underlying assumptions.

Net Interest Income Simulation. In order to measure interest rate risk at December 31, 2010, we used a simulation model to project changes in net interest income that result from forecasted changes in interest rates. This analysis calculates the difference between net interest income forecasted using an immediate increase and decrease in interest rates and a net interest income forecast using a flat market interest rate environment derived from spot yield curves typically used to price our assets and liabilities. The income simulation model includes various assumptions regarding the re-pricing relationships for each of our products. Many of our assets are floating rate loans, which are assumed to re-price immediately, and proportional to the change in market rates, depending on their contracted index. Some loans and investments include the opportunity of prepayment (embedded options), and accordingly the simulation model uses estimated market speeds to derive prepayments and reinvests proceeds at modeled yields. Our non-term deposit products re-price more slowly, usually changing less than the change in market rates and at our discretion.

This analysis indicates the impact of changes in net interest income for the given set of rate changes and assumptions. It assumes the balance sheet remains static and that its structure does not change over the course of the year. It does not account for all factors that could impact our results, including changes by management to mitigate interest rate changes or secondary factors such as changes to our credit risk profile as interest rates change.

Furthermore, loan prepayment rate estimates and spread relationships change regularly. Interest rate changes create changes in actual loan prepayment speeds that will differ from the market estimates incorporated in this analysis. Changes that vary significantly from the modeled assumptions may have significant effects on our actual net interest income.

This simulation model assesses the changes in net interest income that would occur in response to an instantaneous and sustained increase or decrease (shock) in market interest rates. At December 31, 2010, our net interest margin exposure related to these hypothetical changes in market interest rates was within the current guidelines established by us.

Sensitivity of Net Interest Income

	Interest Rate Scenario (change in basis points from Base)					
(in 000 s)	**Down 200**	**Down 100**	**Flat**	**UP 100**	**UP 200**	**Up 300**

Interest Income	$ 282,659	$ 289,424	$ 298,718	$ 312,215	$ 328,307	$ 347,426
Interest Expense	$ 18,288	$ 23,273	$ 36,564	$ 54,978	$ 74,740	$ 95,217
Net Interest Income	**$ 264,371**	**$ 266,151**	**$ 262,154**	**$ 257,237**	**$ 253,567**	**$ 252,209**
% Change	0.8%	1.5%		-1.9%	-3.3%	-3.8%

Derivative Contracts. In the normal course of business, the Company uses derivative instruments to meet the needs of its customers and manage exposure to fluctuations in interest rates. The following table summarizes the aggregate notional amounts, market values and terms of the Company s derivative holdings as of December 31, 2010.

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Outstanding Derivatives Positions

Notional	*Net Value*	*Weighted Average Term (in yrs)*
12,860,170	(1,395,856)	3.9

The following table summarizes the aggregate notional amounts, market values and terms of the Company s derivative holdings as of December 31, 2009:

Outstanding Derivatives Positions

Notional	**Notional Net Value**	**Weighted Average Term (in years)**
13,378,675	(1,138,878)	4.9

Recent accounting pronouncements

FASB ASC 810, *Consolidation* (ASC 810). Effective January 1, 2010, further new authoritative accounting guidance under ASC Topic 810 amends prior guidance to change how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity s purpose and design and a company s ability to direct the activities of the entity that most significantly impact the entity s economic performance. The new authoritative accounting guidance requires additional disclosures about the reporting entity s involvement with variable-interest entities and any significant changes in risk exposure due to that involvement as well as its affect on the entity s financial statements. The new authoritative accounting guidance under ASC Topic 810 was effective January 1, 2010 and did not have a significant impact on the Company s consolidated financial statements.

FASB ASC Topic 860, *Transfers and Servicing* (ASC 860) was amended to enhance reporting about transfers of financial assets including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. The new authoritative accounting guidance eliminates the concept of a qualifying special-purpose entity and changes the requirements for derecognizing financial assets. The new authoritative guidance also requires additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. The new authoritative accounting guidance under ASC 860 was effective January 1, 2010 and did not have a significant impact on the Company s consolidated financial statements.

Issued October 2009, ASU 2009-15, *Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing* amends FASB ASC Topic 470, *Debt* (ASC 470), and provides guidance for accounting and reporting for own-share lending arrangements issued in contemplation of a convertible debt issuance. At the date of issuance, a share-lending arrangement entered into on an entity s own shares should be measured at fair value in accordance with ASC 820 and recognized as an issuance cost, with an offset to additional paid-in capital. Loaned shares are excluded from basic and diluted earnings per share unless default of the share-lending arrangement occurs. The amendments also require several disclosures including a description and the terms of the arrangement and the reason for entering into the arrangement. The effective dates of the amendments are dependent upon the date the share-lending arrangement was entered into and include retrospective application for arrangements outstanding as of the beginning of fiscal years beginning on or after December 15, 2009. The Company has no plans to issue convertible debt and, therefore, does not expect the update to have an impact on its consolidated financial statements.

In January 2010 the FASB issued ASU 2010-06, *Fair Value Measurements and Disclosures* Topic 820 which provides guidance requiring enhanced fair value disclosures about (1) the different classes of assets and liabilities measured at fair value, (2) the valuation techniques and inputs used, (3) the activity in level 3 fair value measurements and (4) the transfers between levels 1, 2, and 3. The increased disclosure requirements further set forth in the update that in the reconciliation for fair value measurements using significant unobservable inputs (level 3), a reporting entity should present separately information about purchases, sales, issuances and settlements (that is, gross amounts shall be disclosed as opposed to a single net figure). The company accepted these new disclosure requirements during 2010 except for the Level 3 activity which is not required until the first quarter of 2011.

In April 2010 the FASB issued ASU 2010-18, *Loan Modifications* Topic 310 which provides guidance that loans accounted for within a pool need not be removed from the pool when loan modifications are made, even if the modifications would otherwise be considered trouble debt restructurings. Under this guidance an entity will continue to evaluate the pool of loans when performing its impairment analysis. The effective date of the amendments in this update is in the first interim period ending on or after July 15, 2010. The amendments are to be applied prospectively. The Company does not expect the adoption to have a significant impact on its consolidated financial statements.
In July 2010 the FASB issued ASU 2010-20, *Receivables* Topic 310 which amends Topic 310 to improve the disclosures that an entity provides about the credit quality of its financing receivables and related allowance for credit losses. An entity is required to disaggregate by portfolio segment or class certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. The Company adopted the period end disclosures provisions of the new authoritative guidance under ASC Topic 310 in the reporting period ending December 31, 2010. Adoption of the new guidance did not have an impact on the Company s consolidated financial statements. The disclosures about activity that occurs will be effective for reporting periods after January 1, 2011, and will have no impact on the Company s consolidated financial statements.

SUPERVISION AND REGULATION

Bank holding companies and banks operate in an extensively regulated environment under state and federal law. These laws and regulations are intended primarily for the protection of depositors and the Deposit Insurance Fund (the DIF) and not for the benefit of shareholders or creditors. The following discussion is only intended to summarize some of the significant statutes and regulations that affect the banking industry, and therefore is not a comprehensive survey of the field. These summaries are not intended to be complete and are qualified in their entirety by reference to the particular statute or regulation described. Moreover, recent legislation, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act, or Dodd-Frank Act, and regulations have been adopted relating to the regulation, supervision, examination and operation of financial institutions. These laws and regulations have been in effect for only a limited time, and we cannot predict the long-term impact their implementation will have on the capital, credit and real estate markets as well as our operations and activities.
Regulatory oversight of financial institutions, including banks and bank holding companies, has increased in recent periods. Regulators conduct a variety of evaluations, including compliance audits and safety and soundness reviews. As a result of these reviews, regulators may require that we change our practices or policies, write down assets or increase reserves (and therefore reduce our capital base), and take or omit to take other actions deemed prudent by the regulator. Given the implementation of these new laws and regulations, the Company cannot predict the outcome of future regulatory evaluations or whether it will become subject to conditions, policies or directives resulting from regulatory evaluations.

TARP Programs and Compliance

On October 3, 2008, the United States Government enacted the Emergency Economic Stabilization Act of 2008 (EESA) to provide the U.S. Department of the Treasury (Treasury) the resources to stabilize the country s financial markets, including the Troubled Asset Repurchase Program (TARP). On October 14, 2008, the Treasury announced a generally available capital access program under the TARP known as the Capital Purchase Program (CPP) under which financial institutions issued preferred shares and warrants to purchase shares of its common stock to the Treasury, subject to certain conditions.

On November 21, 2008, as part of the CPP, the Company sold to the Treasury (i) 140,000 shares of the Company s Fixed Rate Cumulative Perpetual Preferred Stock, Series A, par value $0.0001 per share, having a liquidation preference of $1,000 per share (the Series A Preferred Stock) and (ii) a ten-year warrant to purchase up to 1,574,213 shares of the Company s common stock, par value $0.0001 per share, at an initial exercise price of $13.34 per share (the Warrant), for an aggregate purchase price of $140 million. On May 20, 2009, the Company completed a Qualified Equity Offering, as defined by the Warrant, which resulted in a reduction in the number of shares underlying the Warrant by one-half, to 787,107 shares of the Company s common stock. All of the proceeds from the sale of the Series A Preferred Stock were treated as Tier 1 capital for regulatory purposes.
For additional information regarding the terms of the Series A Preferred Stock and the warrant, please see the notes to our financial statements and other filings we have made with the SEC.

In connection with the investment by the Treasury, the Company agreed that, until such time as the Treasury does not own any debt or equity securities of the Company or the Warrant, the Company will take all necessary action to ensure that its benefit plans applicable to its senior executive officers comply with Section 111(b) of EESA. These conditions will cease to be binding on the Company at such time as it repurchases all the Series A Preferred Stock and warrant from Treasury.

On February 17, 2009, President Obama signed into law the American Recovery and Reinvestment Act of 2009 (the stimulus bill or ARRA). The final version of the stimulus bill amended the executive compensation provisions of Section 111 of EESA to set forth new restrictions on executive compensation paid by financial institutions participating in TARP. On June 15, 2009, the Treasury issued interim final rules on TARP Standards for Compensation and Corporate Governance, implementing the limitations on executive compensation set forth in ARRA (the Interim Final Rules).

Set forth below is a summary of certain of the executive compensation restrictions required by ARRA and the Interim Final Rules, and an explanation of the Company s compliance with those restrictions.

Prohibition on Bonuses, Retention Awards and Incentive Compensation. ARRA prohibits the payment or accrual of any bonus, retention award or incentive compensation to the Company s five most highly compensated employees (MHCE), except for the payment of long term restricted stock, provided that such restricted stock: (1) is issued with respect to common stock of the Company; (2) is not transferable to the recipient except as the Company repays the TARP funds received, in increments of no less than 25%; and (3) must be forfeited if the employee does not continue performing substantial services for the Company for at least two years from the date of the grant. For the 2009 fiscal year, the Company did not pay, accrue or grant a bonus, retention award or incentive compensation to its five MHCEs except as allowed by the Interim Final Rules.

Shareholder Say on Pay Vote. Under ARRA, the Company must provide its stockholders with an annual advisory say on pay vote on executive compensation that is non-binding on the Company and its Board of Directors. The Company has included a non-binding advisory vote on executive compensation this year for its stockholders to consider (Item 3). The Company s compensation programs fully comply with the requirements of ARRA and the Interim Final Rules; however, the Company may make changes to its compensation programs to ensure future compliance, regardless of the outcome of this year s non-binding advisory vote on executive compensation.

Clawback of Bonuses, Retention Awards and Incentive Compensation. ARRA and the Interim Final Rules require the Company to ensure the recovery of any bonus, retention award or incentive compensation paid to its top five senior executive officers and any of its next 20 most highly compensated employees that was paid based on statements of earnings, revenues, gains or other criteria which are later found to be materially inaccurate. Each of the Company s NEOs contractually agreed to abide by this requirement prior to the Company receiving funds pursuant to the Capital Purchase Program. In September 2009, the Company adopted a Policy on the Recoupment of Bonuses and Incentive or Equity Based Compensation Based on Materially Inaccurate Related Financial Statements or Performance Metric Criteria that applies to all Company executive officers and the twenty MHCEs.

Prohibition on Golden Parachute Payments. ARRA and the Interim Final Rules prohibit the Company from making any golden parachute payment to any of its five senior executive officers and its next five most highly compensated employees. A golden parachute payment is defined as any payment made upon departure from the Company for any reason or any payment due to a change in control of the Company or any of its affiliates under TARP, except for payments for services performed or benefits accrued. The Company carefully evaluates every severance payment an employee may otherwise be eligible for to ensure that the Company does not make a golden parachute payment to its SEOs or next five MHCEs.

Compensation Committee; Prohibition on Encouraging Earnings Manipulation. The Interim Final Rules require the Company s Compensation Committee to discuss, evaluate and review at least every six months the terms of each employee compensation plan and identify and eliminate the features in these plans that could encourage the manipulation of reported earnings of the Company to enhance the compensation of any employee. The Compensation Committee performed its review of the Company s employee compensation plans for purposes of this and other TARP requirements on August 18, 2010 and again more recently on February 25, 2011.]

Luxury Policy. Under ARRA and the Interim Final Rules, the Company s Board of Directors was required to adopt a Company-wide policy on excessive or luxury expenditures, including entertainment, office renovations, transportation services and other unreasonable expenditures by September 14, 2009. The Board of Directors adopted the necessary Luxury Expenditures Policy on September 9, 2009, and it is available on the Company s website, www.westernalliancebancorp.com.

Compliance Certification. ARRA requires the Company s CEO and CFO to annually certify that the Company is in compliance with the TARP compensation requirements. The CEO and CFO certifications have been included as Exhibits 99.1 and 99.2 to this document.

Annual Deduction Limit. EESA and ARRA prohibit the Company from deducting annual compensation paid to any of its top five senior executive officers in excess of $500,000 under Section 162(m)(5) of the Code. Prior to EESA, certain performance based compensation paid under shareholder approved plans did not count toward such deduction limit. EESA and Code Section 162(m)(5) eliminate that exclusion and other previously permitted exceptions for the Company.

No Unnecessary and Excessive Risk Taking. ARRA and the Interim Final Rules required the Company s Compensation Committee to do the following, prior to September 14, 2009:

(1) Discuss, evaluate, and review at least every six months with the Company s senior risk officers the SEO compensation plans to ensure that the SEO compensation plans do not encourage SEOs to take unnecessary and excessive risks that threaten the value or the Company;

(2) Discuss, evaluate, and review with senior risk officers at least every six months employee compensation plans in light of the risks posed to the Company by such plans and how to limit such risks;

(3) Discuss, evaluate, and review at least every six months the employee compensation plans of the Company to ensure that these plans do not encourage the manipulation of reported earnings of the Company to enhance the compensation of any of the Company s employees; and

(4) At least once per fiscal year, provide a narrative description of how the SEO compensation plans do not encourage excessive risks that threaten the value of the Company, including how these compensation plans do not encourage behavior focused on short-term results rather than long-term value creation, the risks posed by employee compensation plans and how these risks were limited, including how these employee compensation plans do not encourage behavior focused on short-term results rather than long-term value creation, and how the Company has ensured that the employee compensation plans do not encourage the manipulation of reported earnings of the Company to enhance the compensation of any of the Company s employees.

The Compensation Committee s narrative descriptions of SEO and employee compensation plans, and its certification of the completion of reviews listed in paragraphs 1 through 3 above, are included in the Compensation Committee Report of the Company s most recent proxy statement.

In February 2009, the Treasury also announced a financial stability plan for the country s financial institutions. The financial stability plan included five major elements: (i) a capital assistance program to invest in convertible preferred stock of certain qualifying financial institutions to ensure they have sufficient capital; (ii) a consumer and business lending initiative to fund consumer loans, small business loans and commercial mortgage asset-backed securities issuances by expansion of the Term Asset-Backed Securities Loan Facility (TALF); (iii) a public-private investment fund to leverage public and private capital with public financing to purchase legacy toxic assets from financial institutions; (iv) an extension of the Temporary Liquidity Program (TLGP); and (v) assistance for homeowners to reduce mortgage payments and interest rates and establishing loan modification guidelines for government and private programs. In addition, all banking institutions with assets over $100 billion were required to undergo a comprehensive stress test to determine if they had sufficient capital to continue lending and to absorb losses that could result from a more severe decline in the economy than projected. The Company was not subject to this comprehensive stress test.

The Dodd-Frank Wall Street Reform and Consumer Protection Act

As a result of the financial crisis, the U.S. Congress passed, and on July 21, 2010 President Obama signed into law, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act. The Dodd-Frank Act has had, and will continue to have, a broad impact on the financial services industry. Many of the provisions of the Dodd-Frank Act codify or direct the appropriate Federal regulatory agency, including the SEC, Federal Reserve or FDIC, to promulgate regulations to implement, the requirements discussed above for TARP participants. The Federal regulatory agencies have issued a number of requests for public comment, proposed rules and final regulations to implement the requirements of the Dodd-Frank Act. The following items provide a brief description of the impact of the Dodd-Frank Act on the operations and activities, both currently and prospectively, of the Company and its subsidiaries.

Deposit Insurance. The Dodd-Frank Act and implementing final rules from the FDIC make permanent the $250,000 deposit insurance limit for insured deposits. The assessment base against which an insured depository institution s deposit insurance premiums paid to the FDIC s Deposit Insurance Fund (or the DIF) has been revised to use the institution s average consolidated total assets less its average equity rather than its deposit base. These provisions could increase the FDIC deposit insurance premiums paid by our insured depository institution subsidiaries. The

Dodd-Frank Act also amended the Federal Deposit Insurance Act to provide full deposit insurance coverage for noninterest-bearing transaction accounts beginning on December 31, 2010. As a result, the FDIC discontinued its Transaction Account Guarantee Program, created under the Temporary Liquidity Guarantee Program. Unlike the FDIC s programs, no opt outs from participation in the Dodd-Frank Act s insurance protection were allowed and institutions were not required to pay a separate assessment for participation.

Increased Capital Standards and Enhanced Supervision. The federal banking agencies are required to establish minimum leverage and risk-based capital requirements for banks and bank holding companies. These new standards will be no lower than existing regulatory capital and leverage standards applicable to insured depository institutions and may, in fact, be higher when established by the agencies. Compliance with heightened capital standards may reduce our ability

to generate or originate revenue-producing assets and thereby restrict revenue generation from banking and non-banking operations. The Dodd-Frank Act also increases regulatory oversight, supervision and examination of banks, bank holding companies and their respective subsidiaries by the appropriate regulatory agency. Compliance with new regulatory requirements and expanded examination processes could increase our cost of operations.

Trust Preferred Securities. Under the increased capital standards established by the Dodd-Frank Act, bank holding companies are prohibited from including in their regulatory Tier 1 capital hybrid debt and equity securities issued on or after May 19, 2010. Among the hybrid debt and equity securities included in this prohibition are trust preferred securities, which the Company has used in the past as a tool for raising additional Tier 1 capital and otherwise improving its regulatory capital ratios. Although the Company may continue to include our existing trust preferred securities as Tier 1 capital, the prohibition on the use of these securities as Tier 1 capital going forward may limit the Company s ability to raise capital in the future.

The Consumer Financial Protection Bureau. The Dodd-Frank Act creates a new, independent Consumer Financial Protection Bureau (or the Bureau) within the Federal Reserve that is tasked with establishing and implementing rules and regulations under certain federal consumer protection laws. These consumer protection laws govern the manner in which we offer many of our financial products and services. Regulatory and rulemaking authority over these laws is expected to be transferred to the Bureau in July 2011.

State Enforcement of Consumer Financial Protection Laws. The Dodd-Frank Act permits states to adopt consumer protection laws and regulations that are stricter than those regulations promulgated by the Bureau. State attorneys general are permitted to enforce consumer protection rules adopted by the Bureau against certain state-chartered institutions. Although our subsidiaries do not currently offer many of these consumer products or services, compliance with any such new regulations would increase our cost of operations and, as a result, could limit our ability to expand into these products and services.

Transactions with Affiliates and Insiders. The Dodd-Frank Act enhances the requirements for certain transactions with affiliates under Section 23A and 23B of the Federal Reserve Act, including an expansion of the definition of covered transactions and an increase in the amount of time for which collateral requirements regarding covered transactions must be maintained. Additionally, limitations on transactions with insiders are expanded through the (i) strengthening on loan restrictions to insiders; and (ii) expansion of the types of transactions subject to the various limits, including derivative transactions, repurchase agreements, reverse repurchase agreements and securities lending or borrowing transactions. Restrictions are also placed on certain asset sales to and from an insider to an institution, including requirements that such sales be on market terms and, in certain circumstances, approved by the institution s board of directors.

Corporate Governance. The Dodd-Frank Act addresses many corporate governance and executive compensation matters that will affect most U.S. publicly traded companies, including us. The Dodd-Frank Act (1) grants shareholders of U.S. publicly traded companies an advisory vote on executive compensation; (2) enhances independence requirements for compensation committee members; (3) requires companies listed on national securities exchanges to adopt incentive-based compensation claw-back policies for executive officers; and (4) provides the SEC with authority to adopt proxy access rules that would allow shareholders of publicly traded-companies to nominate candidates for election as a director and have those nominees included in a company s proxy materials. The SEC recently adopted final rules implementing rules for the shareholder advisory vote on executive compensation and golden parachute payments.

Additional regulations called for in the Dodd-Frank Act, including regulations dealing with the risk retention requirements for, and disclosures required from, residential mortgage originators will be implemented over time. Although the Dodd-Frank Act contains some specific timelines for the Federal regulatory agencies to follow, it remains unclear whether the agencies will be able to meet these deadlines and when rules will be proposed and finalized. We continue to monitor the rulemaking process and, while our current assessment is that the Dodd-Frank Act and the implementing regulations will not have a material effect on the Company, given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented, the full extent of the impact such requirements will have on our operations is unclear. The changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, impose upon us more

stringent capital, liquidity and leverage requirements or otherwise adversely affect our business. These changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements. Failure to comply with the new requirements would negatively impact our results of operations and financial condition. While we cannot predict what effect any presently contemplated or future changes in the laws or regulations or their interpretations would have on us, these changes could be materially adverse to our investors.

Bank Holding Company Regulation

General. Western Alliance Bancorporation is a bank holding company, registered with the Board of Governors of the Federal Reserve (the Federal Reserve) under the Bank Holding Company Act of 1956 (the BHC Act). As such, the Federal Reserve is Western Alliance s primary federal regulator, and Western Alliance is subject to extensive regulation, supervision and examination by the Federal Reserve. Western Alliance must file reports with the Federal Reserve and provide it with such additional information as it may require.

Under Federal Reserve policy, a bank holding company is required to serve as a source of financial and managerial strength for its subsidiary banks and may not conduct its operations in an unsafe or unsound manner. Accordingly, the Company must stand ready to use its available resources to provide adequate capital to its subsidiary banks during a period of financial stress or adversity and should maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks. Such support may be required at times when, absent the Federal Reserve s policy, a bank holding company may not be inclined to provide it. The expectation to serve as a source of financial strength is in addition to certain guarantees required under the prompt correction action provisions discussed below. A bank holding company s failure to meet these obligations will generally be considered by the Federal Reserve to be an unsafe and unsound banking practice or a violation of Federal Reserve regulations, or both.

Among its powers, the Federal Reserve may require a bank holding company to terminate an activity or terminate control of, divest or liquidate subsidiaries or affiliates that the Federal Reserve determines constitute a significant risk to the financial safety or soundness of the bank holding company or any of its bank subsidiaries. Subject to certain exceptions, bank holding companies also are required to give written notice to and receive approval from the Federal Reserve before purchasing or redeeming their common stock or other equity securities. The Federal Reserve also may regulate provisions of a bank holding company s debt, including by imposing interest rate ceilings and reserve requirements. In addition, the Federal Reserve requires all bank holding companies to maintain capital at or above certain prescribed levels. Additionally, as a result of the Dodd-Frank Act, the Company s cannot engage in proprietary trading or establish or invest in private equity or hedge funds, subject to a few narrow exemptions.

Holding Company Bank Ownership. The BHC Act requires every bank holding company to obtain the approval of the Federal Reserve before it may acquire, directly or indirectly, ownership or control of any voting shares of another bank or bank holding company if, after such acquisition, it would own or control more than 5% of any class of the outstanding voting shares of such other bank or bank holding company, acquire all or substantially all the assets of another bank or bank holding company or merge or consolidate with another bank holding company. The BHC Act further provides that the Federal Reserve may not approve any transaction that would result in a monopoly or would be in furtherance of any combination or conspiracy to monopolize or attempt to monopolize the business of banking in any section of the United States, or the effect of which may be substantially to lessen competition or to tend to create a monopoly in any section of the country, or that in any other manner would be in restraint of trade, unless the anticompetitive effects of the proposed transaction are clearly outweighed by the public interest in meeting the convenience and needs of the community to be served. The Federal Reserve is also required to consider the financial and managerial resources and future prospects of the bank holding companies and banks concerned and the convenience and needs of the community to be served. Consideration of financial resources generally focuses on capital adequacy, and consideration of convenience and needs issues includes the parties performance under the Community Reinvestment Act (CRA). In addition, the Federal Reserve must take into account the institutions effectiveness in combating money laundering.

Holding Company Non-bank Ownership. With certain exceptions, the BHC Act prohibits a bank holding company from acquiring or retaining, directly or indirectly, ownership or control of more than 5% of the outstanding voting shares of any company that is not a bank or bank holding company, or from engaging, directly or indirectly, in activities other than those of banking, managing or controlling banks, or providing services for its subsidiaries. The principal exceptions to these prohibitions involve certain non-bank activities that have been identified, by statute or by Federal Reserve regulation or order as activities so closely related to the business of banking or of managing or controlling banks as to be a proper incident thereto. Business activities that have been determined to be so related to banking include securities brokerage services, investment advisory services, fiduciary services and certain management advisory and data processing services, among others. A bank holding company that qualifies as a financial holding company also may engage in a broader range of activities that are financial in nature (and

complementary to such activities). Additional limitations on expansion were implemented by the Dodd-Frank Act s amendments to the BHC Act, which prohibit mergers or acquisitions if the resulting institution would own or control more than 10% of the aggregate consolidated liabilities of all U. S. financial companies.

Bank holding companies that qualify and elect to become financial holding companies may engage in non-bank activities that have been identified by the Gramm-Leach-Bliley Act of 1999 (GLB Act) or by Federal Reserve and Treasury regulation as financial in nature or incidental to a financial activity. The Federal Reserve may also determine that a financial holding company may engage in certain activities that are complementary to a financial activity. Activities that are defined as financial in nature include securities underwriting, dealing and market making, sponsoring mutual funds and investment companies, engaging in insurance underwriting and agency activities, and making merchant banking investments in non-financial companies. In order to become or remain a financial holding company, a bank holding company must be well-capitalized, well-managed, and, except in limited circumstances, have at least satisfactory CRA

ratings. A financial holding company must also file a certification with the Federal Reserve that all its depository institution subsidiaries are well-capitalized and well managed. If, after becoming a financial holding company and undertaking activities not permissible for a bank holding company, the company fails to continue to meet any of the prerequisites for financial holding company status, the company must enter into an agreement with the Federal Reserve to comply with all applicable capital and management requirements. If the company does not return to compliance within 180 days, the Federal Reserve may order the company to divest its subsidiary banks or the company may discontinue or divest investments in companies engaged in, activities permissible only for a bank holding company that has elected to be treated as a financial holding company. On March 30, 2009, the Company withdrew its election to be a financial holding company, and is now required to limit its activities to those permissible for a bank holding company.

Change in Control. In the event that the BHC Act is not applicable to a person or entity, the Change in Bank Control Act of 1978 (CIBC Act) requires, that such person or entity give notice to the Federal Reserve and the Federal Reserve not disapprove such notice before such person or entity may acquire control of a bank or bank holding company. A limited number of exemptions apply to such transactions. Subject to more recent guidance issued by the Federal Reserve, control is conclusively presumed to exist if a person or entity acquires 25% or more of the outstanding shares of any class of voting stock of the bank holding company or insured depository institution. Control is rebuttably presumed to exist if a person or entity acquires 10% or more but less than 25% of such voting stock and either the issuer has a class of registered securities under Section 12 of the Exchange Act, or no other person or entity will own, control or hold the power to vote a greater percentage of such voting stock immediately after the transaction. In recent guidance, the Federal Reserve has stated that generally it will be able to conclude that an investor does not have control of a bank or bank holding company if it does not own in excess of 15% of the voting power and 33% of the total equity of the relevant bank or bank holding company. Under prior Federal Reserve guidance, a board seat was generally not permitted for non- controlling investment of 10% or greater of the equity or voting power. Under recent guidance, however, the Federal Reserve may permit a non-controlling investor to have up to two board seats if the investor s aggregate board representation is proportionate to its total interest in the bank or bank holding company but does not exceed 25% of the voting members of the board and another shareholder of the bank or bank holding company controls the bank or bank holding company under the BHC Act. The Federal Reserve has also set forth the terms of nonvoting equity securities it will deem to be voting securities and gives examples of other indicia of control beyond just equity ownership limits.

State Law Restrictions. As a Nevada corporation, Western Alliance is subject to certain limitations and restrictions under applicable Nevada corporate law. For example, Nevada law imposes restrictions relating to indemnification of directors, maintenance of books, records and minutes and observance of certain corporate formalities. Western Alliance is also a bank holding company within the meaning of state law in the states where its subsidiary banks are located. As such, it is subject to examination by and may be required to file reports with the Nevada Financial Institutions Division (Nevada FID) under sections 666.095 and 666.105 of the Nevada Revised Statutes. Western Alliance must obtain the approval of the Nevada Commissioner of Financial Institutions (Nevada Commissioner) before it may acquire another bank. Any transfer of control of a Nevada bank holding company must be approved in advance by the Nevada Commissioner.

Under section 6-142 of the Arizona Revised Statutes, no person may acquire control of a company that controls an Arizona bank without the prior approval of the Arizona Superintendent of Financial Institutions (Arizona Superintendent). A person who has the power to vote 15% or more of the voting stock of a controlling company is presumed to control the company.

Western Alliance also is subject to examination and reporting requirements of the California Department of Financial Institutions (California DFI) under sections 3703 and 3704 of the California Financial Code. Any transfer of control of a corporation that controls a California bank requires the prior approval of the California Commissioner of Financial Institutions (California Commissioner).

Bank Regulation

General. On December 31, 2010, the Company merged its former Alta Alliance Bank subsidiary into its Torrey Pines Bank subsidiary, and its former First Independent Bank of Nevada subsidiary into its Alliance Bank of Arizona

subsidiary. As part of the latter merger, Alliance Bank of Arizona was renamed Western Alliance Bank doing business as Alliance Bank of Arizona (in Arizona) and First Independent Bank (in Nevada). Following this charter consolidation, Western Alliance controls three subsidiary banks: Bank of Nevada located in Las Vegas, Nevada, Western Alliance Bank located in Phoenix, Arizona, and Torrey Pines Bank located in San Diego, California. All three banks are state-chartered, nonmember banks and are subject to regulation, supervision and examination by the FDIC, which is their primary federal banking agency. In addition, Bank of Nevada is chartered in Nevada and subject to supervision by the Nevada FID, Western Alliance Bank is chartered in Arizona and is subject to supervision by the Arizona Department of Financial Institutions (Arizona DFI), and Torrey Pines Bank is chartered in California and is subject to supervision by the California DFI.

Federal and state banking laws and the implementing regulations promulgated by the federal and state banking regulatory agencies cover most aspects of the banks operations, including capital requirements, reserve requirements against

deposits and for possible loan losses and other contingencies, dividends and other distributions to shareholders, customers interests in deposit accounts, payment of interest on certain deposits, permissible activities and investments, securities that a bank may issue and borrowings that a bank may incur, rate of growth, number and location of branch offices and acquisition and merger activity with other financial institutions.

Deposit Insurance Assessments. Deposits in the banks are insured by the FDIC to applicable limits through the Deposit Insurance Fund (DIF). All of Western Alliance s subsidiary banks are required to pay deposit insurance premiums, which are generally assessed semiannually and paid quarterly. The FDIC utilizes a risk-based assessment system that imposes insurance premiums based upon a risk matrix that takes into account a bank s capital level and supervisory rating (CAMELS rating). The risk matrix utilizes four risk categories which are distinguished by capital levels and supervisory ratings. Banks with higher levels of capital and a low degree of supervisory concern are assessed lower premiums than banks with lower levels of capital or a higher degree of supervisory concern. On February 7, 2011, the FDIC approved a final rule to implement deposit insurance assessment changes called for under the Dodd-Frank Act. The final rate schedule will go into effect on April 1, 2011. The deposit insurance initial base assessment rates currently rage from 12 basis points on deposits (for a financial institution in Risk Category I) to 45 basis points on deposits (for financial institutions in Risk Category IV), but may be higher under certain conditions. After adjustments, the total base assessment rates range from 7 basis points (for Risk Category I financial institutions) to 77.5 basis points (for Risk Category IV financial institutions). In addition, the FDIC collects The Financing Corporation (FICO) deposit assessments on assessable deposits. FICO assessments are set quarterly, and in 2009 ranged from 1.14 basis points in the first quarter to 1.02 basis points in the fourth quarter.

In the second quarter of 2009, the FDIC levied a special assessment on all insured depository institutions totaling 5 basis points of each institution s total assets less Tier 1 capital. The special assessment was part of the FDIC s efforts to rebuild the DIF. In November 2009, the FDIC issued a rule that required all insured depository institutions, with limited exceptions, to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. The FDIC also adopted a uniform three-basis point increase in assessment rates effective on January 1, 2011. In December 2009, the Company paid $34.3 million in prepaid risk-based assessments, which included $2.2 million related to the fourth quarter of 2009 that would have otherwise been payable in the first quarter of 2010. This amount is included in deposit insurance expense for 2009. The remaining $32.1 million in pre-paid deposit insurance is included in other assets in the accompanying consolidated balance sheets as of December 31, 2009.

Supervision and Examination. Federal banking agencies have broad enforcement powers, including the power to terminate deposit insurance, impose substantial fines and other civil and criminal penalties, and appoint a conservator or receiver. If, as a result of an examination, the FDIC or the Federal Reserve, as applicable, were to determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of the banks operations had become unsatisfactory, or that any of the banks or their management was in violation of any law or regulation, the FDIC or the Federal Reserve may take a number of different remedial actions as it deems appropriate. These actions include the power to enjoin unsafe or unsound practices, to require affirmative actions to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in the bank s capital, to restrict the bank s growth, to assess civil monetary penalties against the bank s officers or directors, to remove officers and directors and, if the FDIC concludes that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate the bank s deposit insurance.

Under Nevada, Arizona and California law, the respective state banking supervisory authority has many of the same remedial powers with respect to its state-chartered banks.

On October 21, 2010, the Company received notification from the FDIC that the previously disclosed Consent Order with respect to Torrey Pines Bank, dated November 16, 2009, was terminated as of October 20, 2010.

The Company s banking subsidiaries, including Bank of Nevada, have been placed under informal supervisory oversight by banking regulators in the form of memoranda of understanding. The oversight requires enhanced supervision by the Board of Directors of each bank, and the adoption or revision of written plans and/or policies addressing such matters as asset quality, credit underwriting and administration, the allowance for loan and lease

losses, loan and investment portfolio risks, asset-liability management and loan concentrations, as well as the formulation and adoption of comprehensive strategic plans. The banks also are prohibited from paying dividends or making other distributions to the Company without prior regulatory approval and are required to maintain higher levels of Tier 1 capital than otherwise would be required to be considered well-capitalized under federal capital guidelines. In addition, the banks are required to provide regulators with prior notice of certain management and director changes and, in certain cases, to obtain their non-objection before engaging in a transaction that would materially change its balance sheet composition. The Company believes each bank is in full compliance with the requirements of the applicable memorandum of understanding.

Regulation of Non-banking Subsidiaries

Shine Investment Advisory Services, Inc. Shine, a Colorado corporation, are investment advisers that are registered with the SEC under the Investment Advisers Act of 1940 (Advisers Act). Under the Advisers Act, an investment adviser is

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subject to supervision and inspection by the SEC. A significant element of supervision under the Advisers Act is the requirement to make significant disclosures to the public under Part II of Form ADV of the adviser s services and fees, the qualifications of its associated persons, financial difficulties and potential conflicts of interests. An investment adviser must keep extensive books and records, including all customer agreements, communications with clients, orders placed and proprietary trading by the adviser or any advisory representative.

Capital Standards

Regulatory Capital Guidelines. The Federal Reserve and the FDIC have risk-based capital adequacy guidelines intended to measure capital adequacy with regard to the degree of risk associated with a banking organization s operations for transactions reported on the balance sheet as assets and transactions, such as letters of credit and recourse arrangements, that are reported as off-balance-sheet items. The Company and its subsidiary banks are required to comply with these capital adequacy standards. Under these guidelines, the nominal dollar amounts of assets on the balance sheet and credit-equivalent amounts of off- balance-sheet items are multiplied by one of several risk adjustment percentages. These range from 0.0% for assets with low credit risk, such as cash and certain U.S. government securities, to 100.0% for assets with relatively higher credit risk, such as business loans. A banking organization s risk-based capital ratios are obtained by dividing its Tier 1 capital and total qualifying capital (Tier 1 capital and a limited amount of Tier 2 capital) by its total risk-adjusted assets certain and off-balance-sheet items. Tier 1 capital consists of common stock, retained earnings, non-cumulative perpetual preferred stock, trust preferred securities up to a certain limit, and minority interests in certain subsidiaries, less most other intangible assets. Tier 2 capital consists of preferred stock not qualifying as Tier 1 capital, limited amounts of subordinated debt, other qualifying term debt, a limited amount of the allowance for loan and lease losses and certain other instruments that have some characteristics of equity. The inclusion of elements of Tier 2 capital as qualifying capital is subject to certain other requirements and limitations of the federal banking supervisory agencies. Since December 31, 1992, the Federal Reserve and the FDIC have required a minimum ratio of Tier 1 capital to risk-adjusted assets and certain off-balance-sheet items of 4.0% and a minimum ratio of qualifying total capital to risk-adjusted assets and certain off-balance-sheet items of 8.0%.

The Federal Reserve and the FDIC require banking organizations to maintain a minimum amount of Tier 1 capital relative to average total assets, referred to as the leverage ratio. The principal objective of the leverage ratio is to constrain the maximum degree to which a bank holding company may leverage its equity capital base. For a banking organization rated in the highest of the five categories used by regulators to rate banking organizations, the minimum leverage ratio of Tier 1 capital to total assets is 3.0%. However, an institution with a 3.0% leverage ratio would be unlikely to receive the highest rating since a strong capital position is a significant part of the regulators rating criteria. All banking organizations not rated in the highest category must maintain an additional capital cushion of 100 to 200 basis points. The Federal Reserve and the FDIC have the discretion to set higher minimum capital requirements for specific institutions. Furthermore, the Federal Reserve has previously indicated that it may consider a tangible Tier 1 capital leverage ratio (thereby deducting all intangibles from Tier 1 capital) and other indicators of capital strength in evaluating proposals for expansion or new activities. The Company s tier one leverage ratio at December 31, 2010 was 9.5%. A bank that does not achieve and maintain the required capital levels may be issued a capital directive by the Federal Reserve or the FDIC, as appropriate, to ensure the maintenance of required capital levels.

The federal regulatory authorities risk-based capital guidelines are based upon the 1988 capital accord (Basel I) of the Basel Committee on Banking Supervision (the Basel Committee). The Basel Committee is a committee of central banks and bank supervisors/regulators from the major industrialized countries that develops broad policy guidelines for use by each country s supervisors in determining the supervisory policies they apply. In 2004, the Basel Committee published a new capital accord (Basel II) to replace Basel I. Basel II provides two approaches for setting capital standards for credit risk an internal ratings-based approach tailored to individual institutions circumstances and a standardized approach that bases risk weightings on external credit assessments to a much greater extent than permitted in existing risk-based capital guidelines. Basel II also would set capital requirements for operational risk and refine the existing capital requirements for market risk exposures. In July 2010, the Basel Committee adopted the key design elements for Basel III and, in September 2010, adopted the transition measures. The requirements of the Dodd-Frank Act have largely surpassed the regulatory requirements called for by Basel III. Regulators have begun the

process of adopting standards required under the Dodd-Frank Act to remove reliance on credit rating agencies. This reliance is important in Basel III, and regulators are considering the impact of this requirement in international standards.

Prompt Corrective Action. Federal banking agencies possess broad powers to take corrective and other supervisory action to resolve the problems of insured depository institutions, including institutions that fall below one or more of the prescribed minimum capital ratios described above. The federal banking regulators are required to take prompt corrective action with respect to capital-deficient institutions. An institution that is classified based upon its capital levels as well-capitalized, adequately capitalized, or undercapitalized may be treated as though it was in the next lower capital category if its primary federal banking supervisory authority, after notice and opportunity for hearing, determines that an unsafe or unsound condition or practice warrants such treatment. At each successively lower capital category, an insured depository institution is subject to additional restrictions. A bank holding company must guarantee that a subsidiary bank that adopts a capital restoration plan will meet its plan obligations, in an amount not to exceed 5% of the subsidiary bank s

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assets or the amount required to meet regulatory capital requirements, whichever is less. Any capital loans made by a bank holding company to a subsidiary bank are subordinated to the claims of depositors in the bank and to certain other indebtedness of the subsidiary bank. In the event of the bankruptcy of a bank holding company, any commitment by the bank holding company to a federal banking regulatory agency to maintain the capital of a subsidiary bank would be assumed by the bankruptcy trustee and would be entitled to priority of payment.

In addition to measures that may be taken under the prompt corrective action provisions, federal banking regulatory authorities may bring enforcement actions against banks and bank holding companies for unsafe or unsound practices in the conduct of their businesses or for violations of any law, rule or regulation, any condition imposed in writing by the appropriate federal banking regulatory authority or any written agreement with the authority. Possible enforcement actions include the appointment of a conservator or receiver, the issuance of a cease-and-desist order that could be judicially enforced, the termination of insurance of deposits (in the case of a depository institution), the imposition of civil money penalties, the issuance of directives to increase capital, the issuance of formal and informal agreements, including memoranda of understanding, the issuance of removal and prohibition orders against institution-affiliated parties and the enforcement of such actions through injunctions or restraining orders. In addition, a bank holding company s inability to serve as a source of strength for its subsidiary banks could serve as an additional basis for a regulatory action against the bank holding company.

Under Nevada law, if the stockholders equity of a Nevada state-chartered bank becomes impaired, the Nevada Commissioner must require the bank to make the impairment good within three months after receiving notice from the Nevada Commissioner. If the impairment is not made good, the Nevada Commissioner may take possession of the bank and liquidate it.

Dividends. Western Alliance has never declared or paid cash dividends on its capital stock. Western Alliance currently intends to retain any future earnings for future growth and does not anticipate paying any cash dividends in the foreseeable future. Any determination in the future to pay dividends will be at the discretion of Western Alliance s board of directors and will depend on the company s earnings, financial condition, results of operations, business prospects, capital requirements, regulatory restrictions, contractual restrictions and other factors that the board of directors may deem relevant.

Western Alliance s ability to pay dividends is subject to the regulatory authority of the Federal Reserve. The supervisory concern of the Federal Reserve focuses on a bank holding company s capital position, its ability to meet its financial obligations as they come due, and its capacity to act as a source of financial strength to its subsidiaries. In addition, Federal Reserve policy discourages the payment of dividends by a bank holding company that are not supported by current operating earnings. Furthermore, a condition to the Company s acceptance of TARP funds is that it not pay dividends until it repurchases the preferred stock that was issued to the Treasury.

As a Nevada corporation, Western Alliance also is subject to limitations under Nevada law on the payment of dividends. Under Nevada corporate law, section 78.288 of the Nevada Revised Statutes provides that no cash dividend or other distribution to shareholders, other than a stock dividend, may be made if, after giving effect to the dividend, the corporation would not be able to pay its debts as they become due or, unless specifically allowed by the articles of incorporation, the corporation s total assets would be less than the sum of its total liabilities and the claims of preferred stockholders upon dissolution of the corporation.

From time to time, Western Alliance may become a party to financing agreements and other contractual obligations that have the effect of limiting or prohibiting the declaration or payment of dividends such as the Series A Preferred Stock it issued pursuant to TARP. Holding company expenses and obligations with respect to its outstanding trust preferred securities and corresponding subordinated debt also may limit or impair Western Alliance s ability to declare and pay dividends.

Since Western Alliance has no significant assets other than the voting stock of its subsidiaries, it currently depends on dividends from its bank subsidiaries and, to a lesser extent, its non-bank subsidiaries, for a substantial portion of its revenue and as the primary sources of its cash flow. The ability of a state non-member bank to pay cash dividends is not restricted by federal law or regulations. For example, under the Federal Deposit Insurance Corporation Act (FDIA), an insured institution may not pay a dividend if payment would cause it to become undercapitalized or if it is already undercapitalized. Furthermore, the FDIC has issued a policy statement indicating that banks should generally

pay dividends only out of current operating earnings. In addition, the memoranda of understanding to which our bank subsidiaries currently are subject prohibit the payment of dividends or other distributions to the Company without prior regulatory approval.

State laws also impose restrictions on the ability of each of Western Alliance s subsidiary banks to pay dividends:

Under sections 661.235 and 661.240 of the Nevada Revised Statutes, Bank of Nevada and First Independent Bank of Nevada may not pay dividends unless the bank s surplus fund, not including any initial surplus fund, equals the bank s initial stockholders equity, plus 10% of the previous year s net profits, and the dividend would

not reduce the bank s stockholders equity below the initial stockholders equity of the bank, which must be at least 6% of the total deposit liability of the bank.

Under section 6-187 of the Arizona Revised Statutes, Alliance Bank of Arizona may pay dividends on the same basis as any other Arizona corporation. Under section 10-640 of the Arizona Revised Statutes, a corporation may not make a distribution to shareholders if to do so would render the corporation insolvent or unable to pay its debts as they become due. However, an Arizona bank may not declare a non-stock dividend out of capital surplus without the approval of the Arizona Superintendent.

Under section 642 of the California Financial Code, Torrey Pines Bank and Alta Alliance Bank may not, without the prior approval of the California Commissioner, make a distribution to its shareholders in an amount exceeding the bank s retained earnings or its net income during its last three fiscal years, less any previous distributions made during that period by the bank or its subsidiaries, whichever is less. Under section 643 of the California Financial Code, the California Commissioner may approve a larger distribution, but in no event to exceed the bank s net income during the year, net income during the prior fiscal year or retained earnings, whichever is greatest.

Redemption. A bank holding company may not purchase or redeem its equity securities without the prior written approval of the Federal Reserve if the purchase or redemption combined with all other purchases and redemptions by the bank holding company during the preceding 12 months equals or exceeds 10% of the bank holding company s consolidated net worth. However, prior approval is not required if the bank holding company is well-managed, not the subject of any unresolved supervisory issues and both before and immediately after the purchase or redemption is well-capitalized.

Increasing Competition in Financial Services

The Dodd-Frank Act has established new standards for branching by out-of-state banks. Under the new standard, a bank may establish a *de novo* branch in any location in any state where a bank chartered in that state would be permitted to locate a branch.

Selected Regulation of Banking Activities

Transactions with Affiliates. Banks are subject to restrictions imposed by Sections 23A and 23B of Federal Reserve Act and regulations adopted by the Federal Reserve thereunder with regard to extensions of credit to affiliates, investments in securities issued by affiliates and the use of affiliates securities as collateral for loans to any borrower. Specifically, the Company s subsidiary banks may only engage in lending and other covered transactions with non-bank and non-savings bank affiliates to the following extent: (a) in the case of any single such affiliate, the aggregate amount of covered transactions of the applicable subsidiary bank and its subsidiaries may not exceed 10% of the capital stock and surplus of the applicable subsidiary bank; and (b) in the case of all affiliates, the aggregate amount of covered transactions of the applicable subsidiary bank and its subsidiaries may not exceed 20% of the capital stock and surplus of the applicable subsidiary bank. Covered transactions are also subject to certain collateralization requirements. Covered transactions are defined by statute to include a loan or extension of credit, as well as a purchase of securities issued by an affiliate, a purchase of assets (unless otherwise exempted by the Federal Reserve) from the affiliate, the acceptance of securities issued by the affiliate as collateral for a loan, and the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate. The Dodd-Frank Act has expanded the definition of covered transactions and increased the timing and other aspects of the collateral requirements associated with covered transactions. All covered transactions, including certain additional transactions (such as transactions with a third party in which an affiliate has a financial interest), must be conducted on prevailing market terms and on terms substantially the same, or at least as favorable, to the bank as those prevailing at that time for comparable transactions with or involving other non-affiliated persons. These laws and regulations may limit the ability of Western Alliance to obtain funds from its subsidiary banks for its cash needs, including funds for payment of dividends, interest and operational expenses.

Insider Credit Transactions. Banks also are subject to certain restrictions regarding extensions of credit to executive officers, directors or principal shareholders of a bank and its affiliates or to any related interests of such persons (*i.e.*, insiders). All extensions of credit to insiders must be made on substantially the same terms and pursuant to the same credit underwriting procedures as are applicable to comparable transactions with persons who are neither insiders nor employees, and must not involve more than the normal risk of repayment or present other unfavorable features. Insider loans also are subject to certain lending limits, restrictions on overdrafts to insiders and requirements for prior approval by the bank s board of directors. In addition to enhancing restrictions on insider transactions, the Dodd-Frank Act increases the types of transactions with insiders subject to restrictions, including certain asset sales with insiders.
Lending Limits. In addition to the limits set forth above, state banking law generally limits the amount of funds that a bank may lend to a single borrower. Under Nevada law, the total obligations owed to a bank by one person generally may not exceed 25% of stockholders tangible equity. Under Arizona law, the obligations of one borrower to a bank may not exceed 20% of the bank s capital, plus an additional 10% of its capital if the additional amounts are fully secured by readily marketable collateral. Under California law, the obligations of any one borrower to a bank generally may not

exceed 25% of an amount equal to the sum of the bank s shareholders equity, allowance for loan losses, capital notes and debentures, provided that the total unsecured obligations may not exceed 15% of such amount.

Cross-Guarantee Provisions. Each insured depository institution controlled (as defined in the BHC Act) by the same bank holding company can be held liable to the FDIC for any loss incurred, or reasonably expected to be incurred, by the FDIC due to the default of any other insured depository institution controlled by that holding company and for any assistance provided by the FDIC to any of those banks that is in danger of default. Such a cross-guarantee claim against a depository institution is generally superior in right of payment to claims of the holding company and its affiliates against that depository institution. As a result, one or more of the Company s subsidiary banks may be required by the FDIC to satisfy the claims of another subsidiary bank if such a default were to ever occur.

Banking Agency Loan Guidance. In December 2006, the Federal Reserve, FDIC and other federal banking agencies issues final guidance on sound risk management practices for concentrations in commercial real estate (CRE) lending. The CRE guidance provided supervisory criteria, including numerical indicators to direct examiners in identifying institutions with potentially significant CRE loan concentrations that may warrant greater supervisory scrutiny. The CRE criteria do not constitute limits on CRE lending, but the CRE guidance does provide certain additional expectations, such as enhanced risk management practices and levels of capital, for banks with concentrations in CRE lending. The FDIC issued additional guidance in March 2008 reinforcing the 2006 guidance and addressing steps institutions with potentially significant CRE concentrations should take to reduce or mitigate the risk of the concentration.

During 2007, the Federal Reserve, FDIC and other federal banking agencies issued final guidance on subprime mortgage lending to address issues relating to certain subprime mortgages, especially adjustable-rate mortgage (ARM) products that can cause payment shock. The subprime guidance described the prudent safety and soundness and consumer protection standards that the regulators expect banks and financial institutions to follow to ensure borrowers obtain loans they can afford to repay.

Tying Arrangements. Western Alliance and its subsidiary banks are prohibited from engaging in certain tying arrangements in connection with any extension of credit, sale or lease of property or furnishing of services. With certain exceptions for traditional banking services, Western Alliance s subsidiary banks may not condition an extension of credit to a customer on a requirement that the customer obtain additional credit, property or services from the bank, Western Alliance or any of Western Alliance s other subsidiaries, that the customer provide some additional credit, property or services to the bank, Western Alliance or any of Western Alliance s other subsidiaries or that the customer refrain from obtaining credit, property or other services from a competitor.

Regulation of Management. Federal law sets forth circumstances under which officers or directors of a bank or bank holding company may be removed by the institution s primary federal banking supervisory authority. Federal law also prohibits a management official of a bank or bank holding company from serving as a management official with an unaffiliated bank or bank holding company that has offices within a specified geographic area that is related to the location of the bank s offices and the asset size of the institutions.

Safety and Soundness Standards. Federal law imposes upon banks certain non-capital safety and soundness standards. The federal banking agencies issued joint guidelines for safe and sound banking operations. These standards cover internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, earnings asset growth, compensation and benefits. Additional standards apply to asset quality, earnings and stock valuation. An institution that fails to meet these standards must develop a plan, acceptable to its regulators, specifying the steps that the institution will take to meet the standards. Failure to submit or implement such a plan may subject the institution to regulatory sanctions.

Consumer Protection Laws and Regulations

The banking regulatory authorities have increased their attention in recent years to compliance with the consumer protection laws and their implementing regulations. Examination and enforcement have become more intense in nature, and insured institutions have been advised to monitor carefully compliance with such laws and regulations. The bank is subject to many federal consumer protection statutes and regulations, some of which are discussed below. The Dodd-Frank Act created the Consumer Financial Protection Bureau (Bureau), which will obtain rulemaking and oversight authority of the federal consumer financial protection laws. The Bureau is expected to have regulatory

authority transferred to it in July 2011.

Community Reinvestment Act. The Community Reinvestment Act (CRA) and its implementing regulations are intended to encourage insured depository institutions, while operating safely and soundly, to help meet the credit needs of their communities. The CRA specifically directs the federal regulatory agencies, when examining insured depository institutions, to assess a bank s record of helping meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound banking practices. The CRA further requires the agencies to take a financial institution s record of meeting its community credit needs into account when evaluating applications for, among other things, domestic branches, mergers or acquisitions, or holding company formations. A CRA

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rating other than outstanding or satisfactory can substantially delay or block a transaction. Based upon their most recent CRA examinations, Bank of Nevada received a rating of outstanding ; First Independent Bank of Nevada received a rating of outstanding ; Alliance Bank of Arizona received a rating of satisfactory ; Torrey Pines Bank received a rating of needs to improve ; and Alta Alliance Bank received a rating of satisfactory.

Equal Credit Opportunity Act. The Equal Credit Opportunity Act generally prohibits discrimination in any credit transaction, whether for consumer or business purposes, on the basis of race, color, religion, national origin, sex, marital status, age (except in limited circumstances), receipt of income from public assistance programs, or good faith exercise of any rights under the Consumer Credit Protection Act.

Truth in Lending Act. The Truth in Lending Act (TILA) is designed to ensure that credit terms are disclosed in a meaningful way so that consumers may compare credit terms more readily and knowledgeably. As a result of TILA, all creditors must use the same credit terminology to express rates and payments, including the annual percentage rate, the finance charge, the amount financed, the total of payments and the payment schedule, among other things.

Fair Housing Act. The Fair Housing Act (FHA) regulates many practices, and makes it unlawful for any lender to discriminate in its housing-related lending activities against any person because of race, color, religion, national origin, sex, handicap or familial status. A number of lending practices have been found by the courts to be illegal under the FHA, including some practices that are not specifically mentioned in the FHA.

Home Mortgage Disclosure Act. The Home Mortgage Disclosure Act (HMDA) grew out of public concern over credit shortages in certain urban neighborhoods and provides public information that is intended to help to show whether financial institutions are serving the housing credit needs of the neighborhoods and communities in which they are located. The HMDA also includes a fair lending aspect that requires the collection and disclosure of data about applicant and borrower characteristics as a way of identifying possible discriminatory lending patterns and enforcing anti-discrimination statutes. Beginning with data reported for 2005, the amount of information that financial institutions collect and disclose concerning applicants and borrowers has expanded, which has increased the attention that HMDA data receives from state and federal banking supervisory authorities, community-oriented organizations and the general public.

Real Estate Settlement Procedures Act. The Real Estate Settlement Procedures Act (RESPA) requires lenders to provide borrowers with disclosures regarding the nature and cost of real estate settlements. RESPA also prohibits certain abusive practices, such as kickbacks and fee-splitting without providing settlement services.

Penalties under the above laws may include fines, reimbursements and other penalties. Due to heightened regulatory concern related to compliance with these laws generally, Western Alliance and its subsidiary banks may incur additional compliance costs or be required to expend additional funds for investments in its local community.

Predatory Lending

Predatory lending is a far-reaching concept and potentially covers a broad range of behavior. As such, it does not lend itself to a concise or comprehensive definition. However, predatory lending typically involves one or more of the following elements:

- making unaffordable loans based on the borrower s assets rather than the borrower s ability to repay an obligation;

- inducing a borrower to refinance a loan repeatedly in order to charge high points and fees each time the loan is refinanced, or loan flipping; and

- engaging in fraud or deception to conceal the true nature of the loan obligation from an unsuspecting or unsophisticated borrower.

The Home Ownership Equity and Protection Act of 1994 (HOEPA) and regulations adopted by the Federal Reserve thereunder require certain disclosures and extend additional protection to borrowers in closed end consumer credit transactions, such as home repairs or renovation, that are secured by a mortgage on the borrower s primary residence. The HOEPA disclosures and protections are applicable to such high cost transactions with any of the following features:

- interest rates for first lien mortgage loans more than eight percentage points above the yield on U.S. Treasury securities having a comparable maturity;

- interest rates for subordinate lien mortgage loans more than 10 percentage points above the yield on U.S. Treasury securities having a comparable maturity; or

- total points and fees paid in connection with the credit transaction exceed the greater of either 8% of the loan amount or a specified dollar amount that is inflation-adjusted each year.

HOEPA prohibits or restricts numerous credit practices including loan flipping by the same lender or loan servicer within a year of the loan being refinanced. Lenders are presumed to have violated the law unless they document that the

borrower has the ability to repay. Lenders that violate the rules face cancellation of loans and penalties equal to the finance charges paid. HOEPA also regulates so-called reverse mortgages.

In December 2007, the Federal Reserve issued proposed rules under HOEPA in order to address recent practices in the subprime mortgage market. The proposed rules would require disclosures and additional protections or prohibitions on certain practices connected with higher-priced mortgages, which the proposed rules define as closed-end mortgage loans that are secured by a consumer s principal dwelling that carry interest rates that exceed the yield on comparable U.S. Treasury securities by at least 3 percentage points for first-lien loans, or 5 percentage points for subordinate-lien loans.

Privacy

Under the Graham Leach Bliley Act (GLBA), all financial institutions, including Western Alliance, its bank subsidiaries and certain of their non-banking affiliates and subsidiaries are required to establish policies and procedures to restrict the sharing of non-public customer data with non-affiliated parties at the customer s request and to protect customer data from unauthorized access. In addition, the Fair Credit Reporting Act of 1971 (FCRA) includes many provisions concerning national credit reporting standards and permits consumers, including customers of Western Alliance s subsidiary banks, to opt out of information-sharing for marketing purposes among affiliated companies. The Fair and Accurate Credit Transactions Act of 2004 amended certain provisions of the FRCA and requires banks and other financial institutions to notify their customers if they report negative information about them to a credit bureau or if they are granted credit on terms less favorable than those generally available. The Federal Reserve and the Federal Trade Commission have extensive rulemaking authority under the FCRA, and Western Alliance and its subsidiary banks are subject to these provisions. Western Alliance has developed policies and procedures for itself and its subsidiaries to maintain compliance and believes it is in compliance with all privacy, information sharing and notification provisions of the GLBA Act and the FCRA.

Under California law, every business that owns or licenses personal information about a California resident must maintain reasonable security procedures and policies to protect that information. All customer records that contain personal information and that are no longer required to be retained must be destroyed. Any person that conducts business in California maintains customers personal information in unencrypted computer records and experiences a breach of security with regard to those records must promptly disclose the breach to all California residents whose personal information was or is reasonably believed to have been acquired by unauthorized persons as a result of such breach. Any person who maintains computerized personal data for others and experiences a breach of security must promptly inform the owner or licensee of the breach. A business may not provide personal information of its customers to third parties for direct mailing purposes unless the customer opts in to such information sharing. A business that fails to provide this privilege to its customers must report the uses made of its customers data upon a customer s request.

Compliance

In order to assure that Western Alliance and its subsidiary banks are in compliance with the laws and regulations that apply to their operations, including those summarized herein, Western Alliance and each of its subsidiary banks employs a compliance officer. Western Alliance is regularly reviewed by the Federal Reserve and the subsidiary banks are regularly reviewed by their respective state and federal banking agencies, as part of which their compliance with applicable laws and regulations is assessed.

Corporate Governance and Accounting Legislation

Sarbanes-Oxley Act of 2003. The Sarbanes-Oxley Act (SOX) was adopted for the stated purpose to increase corporate responsibility, enhance penalties for accounting and auditing improprieties at publicly traded companies, and protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. It applies generally to all companies that file or are required to file periodic reports with the SEC under the Exchange Act, which includes Western Alliance. Under SOX, the SEC and securities exchanges adopted extensive additional disclosure, corporate governance and other related rules. Among its provisions, SOX subjects bonuses issued to top executives to disgorgement if a subsequent restatement of a company s financial statements was due to corporate misconduct, prohibits an officer or director from misleading or coercing an auditor, prohibits insider trades during pension fund blackout periods, imposes new criminal penalties for fraud and other wrongful acts and extends the

period during which certain securities fraud lawsuits can be brought against a company or its officers.

Anti-Money Laundering and Anti-Terrorism Legislation

Congress enacted the Bank Secrecy Act of 1970 (the BSA) to require financial institutions, including Western Alliance and its subsidiary banks, to maintain certain records and to report certain transactions to prevent such institutions from being used to hide money derived from criminal activity and tax evasion. The BSA establishes, among other things: (a) record keeping requirements to assist government enforcement agencies in tracing financial transactions and flow of funds; (b) reporting requirements for Suspicious Activity Reports and Currency Transaction Reports to assist government enforcement agencies in detecting patterns of criminal activity; (c) enforcement provisions authorizing criminal and civil

penalties for illegal activities and violations of the BSA and its implementing regulations; and (d) safe harbor provisions that protect financial institutions from civil liability for their cooperative efforts.

Title III of the USA PATRIOT Act of 2001 (the USA PATRIOT Act) amended the BSA and incorporates anti-terrorist financing provisions into the requirements of the BSA and its implementing regulations. Among other things, the USA PATRIOT Act requires all financial institutions, including Western Alliance, its subsidiary banks and several of their non-banking affiliates and subsidiaries, to institute and maintain a risk-based anti-money laundering compliance program that includes a customer identification program, provides for information sharing with law enforcement and between certain financial institutions by means of an exemption from the privacy provisions of the GLB Act, prohibits U.S. banks and broker-dealers from maintaining accounts with foreign shell banks, establishes due diligence and enhanced due diligence requirements for certain foreign correspondent banking and foreign private banking accounts and imposes additional record keeping requirements for certain correspondent banking arrangements. The USA PATRIOT Act also grants broad authority to the Secretary of the Treasury to take actions to combat money laundering, and federal bank regulators are required to evaluate the effectiveness of an applicant in combating money laundering in determining whether to approve any application submitted by a financial institution. Western Alliance and its affiliates have adopted policies, procedures and controls to comply with the BSA and the USA PATRIOT Act, and they engage in very few transactions of any kind with foreign financial institutions or foreign persons.

The Treasury s Office of Foreign Asset Control (OFAC) administers and enforces economic and trade sanctions against targeted foreign countries, entities and individuals based on U.S. foreign policy and national security goals. As a result, financial institutions, including Western Alliance, its subsidiary banks and several of their non-banking affiliates and subsidiaries, must scrutinize transactions to ensure that they do not represent obligations of, or ownership interests in, entities owned or controlled by sanctioned targets. In addition, Western Alliance, its subsidiary banks and several of their non-banking affiliates and subsidiaries restrict transactions with certain targeted countries except as permitted by OFAC.

Regulatory Reform

As noted throughout, the requirements of the Dodd-Frank Act call for a number of rulemakings, studies and regulatory guidance from federal regulators. Additionally, some rulemaking, regulatory and oversight functions currently exercised by the Federal banking agencies, such as the Federal Reserve and the FDIC, will be transferred to the Bureau, which will be tasked with rulemaking and, in some cases, oversight and examination for consumer financial protection laws. The Company and its subsidiary banks continue to monitor this ongoing regulatory process to determine the level of impact that it will have on its operations and activities.

Although the Dodd-Frank Act contains some specific timelines for the Federal regulatory agencies to follow, it remains unclear whether the agencies will be able to meet these deadlines and when rules will be proposed and finalized. While our current assessment is that the Dodd-Frank Act and the implementing regulations will not have a material effect on the Company, given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented, the full extent of the impact such requirements will have on our operations is unclear. The changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage requirements or otherwise adversely affect our business. These changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements. Failure to comply with the new requirements would negatively impact our results of operations and financial condition. While we cannot predict what effect any presently contemplated or future changes in the laws or regulations or their interpretations would have on us, these changes could be materially adverse to our investors.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For a discussion of quantitative and qualitative disclosures about market risk, please see Item 7 *Management s Discussion and Analysis of Financial Condition and results of Operations Quantitative and Qualitative Disclosure about Market Risk* on page 51.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements and supplementary data included in this annual report begin at page 70 immediately following the index to consolidated financial statements page to this annual report.

McGladrey & Pullen, LLP
Certified Public Accountants

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
Western Alliance Bancorporation

We have audited the accompanying consolidated balance sheets of Western Alliance Bancorporation and Subsidiaries (collectively referred to herein as the Company) as of December 31, 2010 and 2009, and the related consolidated statements of operations, comprehensive income (loss), stockholders equity, and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 4, 2011 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ McGLADREY & PULLEN, LLP

Las Vegas, Nevada
March 4, 2011

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WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2010	2009
	(in thousands, except per share amounts)	
Assets:		
Cash and due from banks	**$ 87,984**	$ 116,841
Federal funds sold and other	**918**	3,473
Interest-bearing demand deposits in other financial institutions	**127,844**	276,516
Cash and cash equivalents	**216,746**	396,830
Money market investments	**37,733**	54,029
Investment securities - measured, at fair value	**14,301**	58,670
Investment securities - available-for-sale, at fair value; amortized cost of $1,187,608 at December 31, 2010 and $740,783 at December 31, 2009	**1,172,913**	744,598
Investment securities - held-to-maturity, at amortized cost; fair value of $47,996 at December 31, 2010 and $7,482 at December 31, 2009	**48,151**	7,482
Investments in restricted stock, at cost	**36,877**	41,378
Loans:		
Held for investment, net of deferred fees	**4,240,542**	4,079,639
Less: allowance for credit losses	**(110,699)**	(108,623)
Total loans	**4,129,843**	3,971,016
Premises and equipment, net	**114,372**	125,883
Goodwill and other intangible assets	**39,291**	43,121
Other assets acquired through foreclosure, net	**107,655**	83,347
Bank owned life insurance	**129,808**	92,510
Deferred tax assets, net	**79,860**	68,957
Prepaid expenses	**24,741**	35,323
Other assets	**41,501**	30,135
Discontinued operations, assets held for sale	**91**	
Total assets	**$ 6,193,883**	$ 5,753,279
Liabilities:		
Deposits:		
Non-interest-bearing demand	**$ 1,443,251**	$ 1,157,013
Interest-bearing	**3,895,190**	3,565,089
Total deposits	**5,338,441**	4,722,102
Customer repurchase agreements	**109,409**	223,269
Other borrowings	**72,964**	29,352
Junior subordinated debt, at fair value	**43,034**	42,438
Subordinated debt		60,000
Other liabilities	**27,861**	100,393
Total liabilities	**5,591,709**	5,177,554

Commitments and contingencies (Note 12)		
Stockholders equity:		
Preferred stock par value $.0001 and liquidation value per share of $1,000; 20,000,000 authorized; 140,000 issued and outstanding	**130,827**	127,945
Common stock par value $.0001; 200,000,000 authorized; 81,668,565 shares issued and outstanding at December 31, 2010 and 72,503,902 at December 31, 2009	**8**	7
Surplus	**739,561**	684,092
Retained deficit	**(258,800)**	(241,724)
Accumulated other comprehensive income (loss)	**(9,422)**	5,405
Total stockholders equity	**602,174**	575,725
Total liabilities and stockholders equity	**$ 6,193,883**	$ 5,753,279

See the accompanying notes.

WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2010	*2009*	*2008*
	(in thousands except per share amounts)		
Interest income:			
Loans, including fees	**$ 255,626**	$ 248,098	$ 257,528
Investment securities - taxable	**22,818**	24,318	32,017
Investment securities - non-taxable	**122**	404	747
Dividends - taxable	**617**	680	2,828
Dividends - non-taxable	**1,359**	1,287	2,149
Other	**1,271**	1,236	322
Total interest income	**281,813**	276,023	295,591
Interest expense:			
Deposits	**41,329**	61,905	69,136
Customer repurchase agreements	**538**	3,629	5,999
Other borrowings	**3,745**	3,234	18,291
Junior subordinated and subordinated debt	**3,648**	4,966	7,257
Total interest expense	**49,260**	73,734	100,683
Net interest income	**232,553**	202,289	194,908
Provision for credit losses	**93,211**	149,099	68,189
Net interest income after provision for credit losses	**139,342**	53,190	126,719
Non-interest income:			
Securities impairment charges, net	**(1,186)**	(45,831)	(156,832)
Portion of impairment charges recognized in other comprehensive loss (before taxes)		2,047	
Net securities impairment charges recognized in earnings	**(1,186)**	(43,784)	(156,832)
Gain on sales of securities, net	**19,757**	16,100	138
Service charges and fees	**8,969**	8,172	6,135
Trust and investment advisory fees	**4,003**	9,287	10,489
Operating lease income	**3,793**	4,066	3,659
Other fee revenue	**3,324**	2,754	3,918
Income from bank owned life insurance	**3,299**	2,193	2,639
Gain on extinguishment of debt	**3,000**		
Mark to market (losses) gains, net	**(369)**	3,631	9,033
Derivative (losses) gains, net	**(269)**	(263)	1,607
Other	**2,515**	2,279	1,956
Total non-interest income (loss)	**46,836**	4,435	(117,258)

Non-interest expense:			
Salaries and employee benefits	**86,586**	91,504	84,347
Occupancy expense, net	**19,580**	20,802	20,727
Net loss on sales/valuations of repossessed assets and bank premises, net	**28,826**	21,274	679
Goodwill impairment		49,671	138,844
Insurance	**15,475**	12,525	4,089
Loan and repossessed asset expense	**8,076**	6,363	2,601
Customer service	**4,256**	4,290	2,620
Legal, professional and director fees	**7,591**	8,973	5,221
Marketing	**4,061**	4,915	5,409
Data processing	**3,374**	4,274	5,755
Intangible amortization	**3,604**	3,781	3,631
Operating lease depreciation	**2,506**	3,229	2,886
Merger expenses	**1,651**		
Other	**11,172**	11,376	12,158
Total non-interest expense	**196,758**	242,977	288,967
Loss from continuing operations before provision income taxes	**(10,580)**	(185,352)	(279,506)
Benefit for income taxes	**(6,410)**	(38,453)	(49,496)
Loss from continuing operations	**(4,170)**	(146,899)	(230,010)
Loss from discontinued operations, net of tax benefit	**(3,025)**	(4,507)	(6,450)
Net loss	**(7,195)**	(151,406)	(236,460)
Dividends and accretion on preferred stock	**9,882**	9,742	1,081
Net loss available to common shareholders	**$ (17,077)**	$ (161,148)	$ (237,541)

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WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(continued)

Loss per share - basic and diluted						
Continuing operations	**$**	**(0.19)**	$	(2.66)	$	(7.08)
Discontinued		**(0.04)**		(0.08)		(0.20)
	$	**(0.23)**	$	(2.74)	$	(7.27)
Average number of common shares - basic		**75,083**		58,836		32,652
Average number of common shares - diluted		**75,083**		58,836		32,652
Dividends declared per common share	**$**		$		$	

See the accompanying notes.

WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31,		
	2010	2009	2008
		(in thousands)	
Net loss	**$ (7,195)**	$ (151,406)	$ (236,460)
Other comprehensive (loss)/ income, net:			
Unrealized (loss)/ gain on securities AFS, net	**(2,865)**	13,422	(99,198)
Impairment loss on securities, net	**736**	32,858	99,541
Realized loss/ (gain) on sale of securities AFS included in income, net	**(12,698)**	(7,536)	(90)
Net other comprehensive (loss)/ income	**(14,827)**	38,744	253
Comprehensive (loss)/ income	**$ (22,022)**	$ (112,662)	$ (236,207)

Amount of impairment losses reclassified out of accumulated other comprehensive income into earnings for the period was $1.2 million in 2010, $44.1 million in 2009 and $156.7 million in 2008. The income tax benefit related to these losses were $0.5 million, $11.2 million, and $57.2 million in 2010, 2009, and 2008, respectively.
See the accompanying notes.

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WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

	Preferred Stock		*Common Stock*			*Accumulated Other Comprehensive Income (Loss)*	*Retained Earnings (Deficit)*	*Total Shareholders Equity*
	Shares	*Amount*	*Shares*	*Amount*	*Surplus*			
					(in thousands)			
Balance, December 31, 2007:		$	30,157	$ 3	$ 377,973	$ (28,744)	$ 152,286	$ 501,518
Net loss							(236,460)	(236,460)
Adoption of ASC 715							(169)	(169)
Exercise of stock options, net of tax of $115			183		1,404			1,404
Repuchase shares, net			(20)		(356)			(356)
Stock issued in private placements (1)			8,146	1	80,075			80,076
Stock-based compensation			135		10,059			10,059
Issuance of preferred stock and common stock warrants	140	124,900			15,050			139,950
Accretion on preferred stock discount		303					(303)	
Dividends on preferred stock							(778)	(778)
Other comprehensive income, net						253		253
Balance, December 31, 2008	140	125,203	38,601	4	484,205	(28,491)	(85,424)	495,497
Adoption of ASC 320						(4,848)	4,848	
Net loss							(151,406)	(151,406)
Issuance of common stock (2)			33,441	3	191,056			191,059
Exercise of stock options			28		78			78
Stock-based compensation			247		3,283			3,283
Restricted stock grants, net			187		5,470			5,470
Accretion on preferred stock discount		2,742					(2,742)	
Dividends on preferred stock							(7,000)	(7,000)
Other comprehensive income, net						38,744		38,744
Balance, December 31, 2009	140	127,945	72,504	7	684,092	5,405	(241,724)	575,725
Net loss							**(7,195)**	**(7,195)**
Exercise of stock options			**30**		**164**			**164**
Exercise of common stock warrants			**162**		**195**			**195**
Issuance of common stock, net (3)			**8,050**	**1**	**47,573**			**47,574**
Stock-based compensation			**276**		**3,126**			**3,126**
Restricted stock grants, net			**647**		**4,411**			**4,411**
Dividends on preferred stock							**(7,000)**	**(7,000)**
Accretion on preferred stock discount		**2,882**					**(2,882)**	
Other comprehensive loss, net						**(14,827)**		**(14,827)**

Balance, December 31, 2010	**140**	**$ 130,827**	**81,669**	**$ 8**	**$ 739,561**	**$ (9,422)**	**$ (258,800)**	**$ 602,174**

(1) Net of offering costs of $139
(2) Net of offering costs of $9,582
(3) Net of offering costs of $2,738
See the accompanying notes.

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WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2010	2009	2008
	(in thousands)		
Cash flows from operating activities:			
Net Loss	**$ (7,195)**	$ (151,406)	$ (236,460)
Adjustments to reconcile net loss to cash provided by operating activities:			
Provision for credit losses	**93,211**	149,099	68,189
Depreciation and amortization	**14,091**	15,489	12,873
Stock-based compensation	**7,539**	8,753	10,059
Excess tax benefit of stock-based compensation			(23)
Deferred income taxes and income taxes receivable	**(7,592)**	(46,300)	(11,000)
Net amortization of discounts and premiums for investment securities	**6,309**	1,664	(364)
Goodwill impairment		49,671	138,844
Securities impairment	**1,186**	43,784	156,832
(Gains)/Losses on:			
Sales of securities, AFS	**(19,757)**	(16,100)	(138)
Derivatives	**269**	263	(1,607)
Sale of repossessed assets, net	**29,224**	21,274	679
Sale of premises and equipment, net	**(398)**	(112)	(32)
Sale of loans, net	**(16)**	(328)	(148)
Sale of subsidiary, net	**(568)**	(54)	
Extinguishment of debt	**(3,000)**		
Changes in:			
Other assets	**(40,994)**	(63,571)	(58,379)
Other liabilities	**(72,411)**	66,555	7,978
Fair value of assets and liabilities measured at fair value	**369**	(3,631)	(9,033)
Servicing rights, net	**35**	37	13
Other, net		(332)	2,720
Net cash provided by operating activities	**300**	74,755	81,003
Cash flows from investing activities:			
Proceeds from loan sales		13,242	
Proceeds from sale of securities measured at fair value	**29,415**	22,419	101,232
Principal pay downs and maturities of securities measured at fair value	**15,609**	39,664	38,734
Purchases of securities measured at fair value			(24,266)
Proceeds from sale of available-for-sale securities	**492,159**	88,489	19,177
Principal pay downs and maturities of available-for-sale securities	**867,667**	117,757	62,341
Purchase of available-for-sale securities	**(1,790,489)**	(503,285)	(194,501)
Purchases of securities held-to-maturity	**(45,000)**		
Proceeds from maturities of securities held-to-maturity	**3,686**	495	2,439
Loan originations and principal collections, net	**(339,331)**	(112,143)	(505,369)
Investment in money market	**16,296**	(54,029)	

Liquidation (purchase) of restricted stock	**4,501**	(1,174)	(14,004)
Sale and purchase of premises and equipment, net	**1,422**	4,951	(6,795)
Proceeds from sale of other real estate owned, net	**33,777**	15,418	
Other, net		(46)	256
Net cash (used) in investing activities	**(710,288)**	(368,242)	(520,756)

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WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(continued)

	Year Ended December 31,		
	2010	*2009*	*2008*
	(in thousands)		
Cash flows from financing activities:			
Net increase in deposits	**616,339**	938,116	105,344
Deposits purchased from the FDIC		131,720	
Net increase/ (decrease) in borrowings	**(127,368)**	(703,986)	137,660
Proceeds from issuance of common stock options and stock warrants	**359**	78	1,381
Payments to repurchase common stock			(356)
Excess tax benefit of stock-based compensation			23
Proceeds from issuance stock, net	**47,574**	191,268	220,026
Cash dividends paid on preferred stock	**(7,000)**	(6,833)	
Net cash provided by financing activities	**529,904**	550,363	464,078
Net increase/ (decrease) in cash and cash equivalents	**(180,084)**	256,876	24,325
Cash and cash equivalents at beginning of year	**396,830**	139,954	115,629
Cash and cash equivalents at end of year	**$ 216,746**	$ 396,830	$ 139,954
Supplemental disclosure:			
Cash paid during the period for:			
Interest	**$ 47,354**	$ 73,851	$ 101,974
Income taxes		(47,249)	7,020
Non-cash investing and financing activity:			
Transfers to other assets acquired through foreclosure, net	**87,310**	68,802	25,485
Change in unrealized holding loss on AFS securities, net of tax	**(15,489)**	34,558	254
Change in OTTI on HTM securities, net of tax	**662**	(662)	

See the accompanying notes.

WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operation

Western Alliance Bancorporation (WAL or the Company), incorporated in the state of Nevada, is a bank holding company providing full service banking and related services to locally owned businesses, professional firms, real estate developers and investors, local non-profit organizations, high net worth individuals and other consumers through its three wholly owned subsidiary banks; Bank of Nevada, operating in Nevada, Western Alliance Bank, operating in Arizona and Northern Nevada and Torrey Pines Bank, operating in California. As of December 31, 2010, the Company merged its Alta Alliance Bank subsidiary into its Torrey Pines Bank subsidiary, and its First Independent Bank of Nevada subsidiary into its Alliance Bank of Arizona subsidiary. As part of the latter merger, Alliance Bank of Arizona was renamed Western Alliance Bank doing business as Alliance Bank of Arizona (in Arizona) and First Independent Bank (in Nevada). In addition, its non-bank subsidiaries, Shine Investment Advisory Services, Inc. and Western Alliance Equipment Finance, offer an array of financial products and services aimed at satisfying the needs of small to mid-sized businesses and their proprietors, including financial planning, custody and investments, and equipment leasing nationwide. These entities are collectively referred to herein as the Company. The Company divested its wholly owned subsidiary Premier Trust, Inc as of September 1, 2010.

Basis of Presentation

The accounting and reporting policies of the Company are in accordance with accounting principles generally accepted in the United States (GAAP) and conform to practices within the financial services industry. The accounts of the Company and its consolidated subsidiaries are included in these Consolidated Financial Statements. All significant intercompany balances and transactions have been eliminated.

In June 2009, the Financial Accounting Standards Board (FASB) established the FASB Accounting Standards Codification (FASB ASC), as the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements. Rules and releases of the United States Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The FASB ASC became effective for the Company on September 30, 2009 and supersedes all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the FASB ASC became non-authoritative. The FASB ASC does not change or alter GAAP and, therefore, the adoption of the FASB ASC did not impact the Company s Consolidated Financial Statements.

Use of estimates in the preparation of financial statements

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for credit losses; fair value of other real estate owned; determination of the valuation allowance related to deferred tax assets; impairment of goodwill and other intangible assets and other than temporary impairment on securities. Although Management believes these estimates to be reasonably accurate, actual amounts may differ. In the opinion of Management, all adjustments considered necessary have been reflected in the financial statements during their preparation.

Principles of consolidation

WAL has 10 wholly-owned subsidiaries; Bank of Nevada (BON), Western Alliance Bank (WAB), Torrey Pines Bank (TPB), which are all banking subsidiaries; Western Alliance Equipment Finance, Inc. (WAEF), which provides equipment leasing; and six unconsolidated subsidiaries used as business trusts in connection with issuance of trust-preferred securities. In addition, WAL maintains an 80 percent interest in Shine Investment Advisory Services Inc. (Shine), a registered investment advisor. WAL divested formerly wholly-owned subsidiary Premier Trust, Inc. as of September 1, 2010.

BON has a wholly-owned Real Estate Investment Trust (REIT) that is used to hold certain commercial real estate loans, residential real estate loans and other loans in a real estate investment trust. The Company does not have any

other entities that should be considered for consolidation. All significant intercompany balances and transactions have been eliminated in consolidation.

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Reclassifications

Certain amounts in the consolidated financial statements as of and for the years ended December 31, 2009 and 2008 have been reclassified to conform to the current presentation. The reclassifications have no effect on net income or stockholders equity as previously reported.

Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks (including cash items in process of clearing) and federal funds sold. Cash flows from loans originated by the Company and deposits are reported net.

The Company maintains amounts due from banks, which at times may exceed federally insured limits. The Company has not experienced any losses in such accounts.

Cash reserve requirements

Depository institutions are required by law to maintain reserves against their transaction deposits. The reserves must be held in cash or with the Federal Reserve Bank (FRB). The amount of the reserve varies by bank as the banks are permitted to meet this requirement by maintaining the specified amount as an average balance over a two-week period. The total of reserve balances was approximately $18.4 million and $14.0 million as of December 31, 2010 and 2009, respectively.

Investment securities

Investment securities may be classified as held-to-maturity (HTM), available-for-sale (AFS) or trading. The appropriate classification is initially decided at the time of purchase. Securities classified as held-to-maturity are those debt securities the Company has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or general economic conditions. These securities are carried at amortized cost. The sale of a security within three months of its maturity date or after at least 85 percent of the principal outstanding has been collected is considered a maturity for purposes of classification and disclosure.

Securities classified as AFS or trading are reported as an asset on the Consolidated Balance Sheets at their estimated fair value. As the fair value of AFS securities changes, the changes are reported net of income tax as an element of other comprehensive income (OCI), except for impaired securities. When AFS securities are sold, the unrealized gain or loss is reclassified from OCI to non-interest income. The changes in the fair values of trading securities are reported in non-interest income. Securities classified as AFS are both equity and debt securities the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as AFS would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Company s assets and liabilities, liquidity needs, and regulatory capital considerations.

Interest income is recognized based on the coupon rate and increased by accretion of discounts earned or decreased by the amortization of premiums paid over the contractual life of the security using the interest method. For mortgage-backed securities, estimates of prepayments are considered in the constant yield calculations.

In estimating whether there are any other than temporary impairment losses, management considers 1) the length of time and the extent to which the fair value has been less than amortized cost, 2) the financial condition and near term prospects of the issuer, 3) the impact of changes in market interest rates and 4) the intent and ability of the Company to retain its investment for a period of time sufficient to allow for any anticipated recovery in fair value.

Declines in the fair value of individual debt securities available for sale that are deemed to be other than temporary are reflected in earnings when identified. The fair value of the debt security then becomes the new cost basis. For individual debt securities where the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, the other than temporary decline in fair value of the debt security related to 1) credit loss is recognized in earnings and 2) market or other factors is recognized in other comprehensive income or loss. Credit loss is recorded if the present value of cash flows is less than amortized cost. For individual debt securities where the Company intends to sell the security or more likely than not will not recover all of its amortized cost, the other than temporary impairment is recognized in earnings equal to the entire difference between the securities cost basis and its fair value at the balance sheet date. For individual debt securities that credit loss has been recognized in earnings, interest accruals and amortization and accretion of premiums and discounts are suspended when the credit loss is recognized. Interest received after accruals

have been suspended is recognized on a cash basis.

Restricted stock

The Company s subsidiary banks are members of the Federal Home Loan Bank (FHLB) system and maintain an investment in capital stock of the FHLB based on the borrowing capacity used by each bank. The Company s subsidiary banks also maintain an investment in their primary correspondent bank. These investments are considered equity securities with no actively traded market. Therefore, the shares are considered restricted investment securities. These investments are carried at cost, which is equal to the value at which they may be redeemed. The dividend income

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received from the stock is reported in interest income. Our investment in FHLB stock is carried at cost. We conduct a periodic review and evaluation of our FHLB stock to determine if any impairment exists.

Derivative financial instruments

All derivatives are recognized on the balance sheet at their fair value, with changes in fair value reported in current-period earnings. These instruments consist primarily of interest rate swaps.

Certain derivative transactions that meet specified criteria qualify for hedge accounting. The Company occasionally purchases a financial instrument or originates a loan that contains an embedded derivative instrument. Upon purchasing the instrument or originating the loan, the Company assesses whether the economic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the remaining component of the financial instrument (i.e., the host contract) and whether a separate instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. When it is determined that (1) the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, and (2) a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is separated from the host contract and carried at fair value. However, in cases where (1) the host contract is measured at fair value, with changes in fair value reported in current earnings or (2) the Company is unable to reliably identify and measure an embedded derivative for separation from its host contract, the entire contract is carried on the balance sheet at fair value and is not designated as a hedging instrument.

Loans, interest and fees from loans

The Company generally holds loans for investment and has the intent and ability to hold loans until their maturity. Therefore, they are reported at book value. Net loans are stated at the amount of unpaid principal, reduced by unearned loan fees and allowance for credit losses.

Interest income on loans is accrued daily using the effective interest method and recognized over the terms of the loans. Loan fees collected for the origination of loans less direct loan origination costs (net deferred loan fees) are amortized over the contractual life of the loan through interest income. If the loan has scheduled payments, the amortization of the net deferred loan fee is calculated using the interest method over the contractual life of the loan. If the loan does not have scheduled payments, such as a line of credit, the net deferred loan fee is recognized as interest income on a straight-line basis over the contractual life of the loan commitment. Commitment fees based on a percentage of a customer s unused line of credit and fees related to standby letters of credit are recognized over the commitment period.

When loans are repaid, any remaining unamortized balances of unearned fees, deferred fees and costs and premiums and discounts paid on purchased loans are accounted for though interest income.

Nonaccrual loans: For all loan types except credit cards, when a borrower discontinues making payments as contractually required by the note, the Company must determine whether it is appropriate to continue to accrue interest. Generally, the Company places loans in a nonaccrual status and ceases recognizing interest income when the loan has become delinquent by more than 90 days or when Management determines that the full repayment of principal and collection of interest is unlikely. The Company may decide to continue to accrue interest on certain loans more than 90 days delinquent if they are well secured by collateral and in the process of collection. Credit card loans and other personal loans are typically charged off no later than 180 days delinquent.

For all loan types, when a loan is placed on nonaccrual status, all interest accrued but uncollected is reversed against interest income in the period in which the status is changed. Subsequent payments received from the customer are applied to principal and no further interest income is recognized until the principal has been paid in full or until circumstances have changed such that payments are again consistently received as contractually required. The Company occasionally recognizes income on a cash basis for non-accrual loans in which the collection of the remaining principal balance is not in doubt.

Impaired loans: A loan is identified as impaired when it is probable that interest and principal will not be collected according to the contractual terms of the original loan agreement. Generally these loans have balances greater than $250,000 and are rated substandard or worse. An exception to this would be any known impaired loans regardless of balance. Most impaired loans are classified as nonaccrual. However, there are some loans that are termed impaired due to doubt regarding collectability according to contractual terms, but are both fully secured by collateral and are

current in their interest and principal payments. These impaired loans are not classified as nonaccrual. Impaired loans are measured for reserve requirements in accordance with ASC Topic 310, *Receivables, based* on the present value of expected future cash flows discounted at the loan s effective interest rate or, as a practical expedient, at the loan s observable market price or the fair value of the collateral if the loan is collateral dependent. The amount of an impairment reserve, if any and any subsequent changes are charged against the allowance for loan losses.

Troubled Debt Restructured Loans: A troubled debt restructured loan is a loan on which the Bank, for reasons related to a borrower s financial difficulties, grants a concession to the borrower that the Bank would not otherwise consider. The

loan terms which have been modified or restructured due to a borrower s financial situation include, but are not limited to, a reduction in the stated interest rate, an extension of the maturity at an interest rate below current market, a reduction in the face amount of the debt, a reduction in the accrued interest, or re-aging, extensions, deferrals, renewals and rewrites. A troubled debt restructured loan is also considered impaired. A loan that is modified at an effective market rate of interest may no longer be classified as troubled debt restructuring in the calendar year subsequent to the restructuring if it is in compliance with the modified terms and the expectation exists for continued performance going forward.

Allowance for credit losses

Credit risk is inherent in the business of extending loans and leases to borrowers. Like other financial institutions, the Company must maintain an adequate allowance for credit losses. The allowance for credit losses is established through a provision for credit losses charged to expense. Loans are charged against the allowance for credit losses when Management believes that the contractual principal or interest will not be collected. Subsequent recoveries, if any, are credited to the allowance. The allowance is an amount believed adequate to absorb probable losses on existing loans that may become uncollectable, based on evaluation of the collectability of loans and prior credit loss experience, together with other factors. The Company formally re-evaluates and establishes the appropriate level of the allowance for credit losses on a quarterly basis.

Our allowance for credit loss methodology incorporates several quantitative and qualitative risk factors used to establish the appropriate allowance for credit losses at each reporting date. Quantitative factors include our historical loss experience, delinquency and charge-off trends, collateral values, changes in the level of nonperforming loans and other factors. Qualitative factors include the economic condition of our operating markets and the state of certain industries. Specific changes in the risk factors are based on perceived risk of similar groups of loans classified by collateral type, purpose and terms. An internal one-year and three-year loss history are also incorporated into the allowance calculation model. Due to the credit concentration of our loan portfolio in real estate secured loans, the value of collateral is heavily dependent on real estate values in Nevada, Arizona and California, which have declined significantly in recent periods. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic or other conditions. In addition, the FDIC, and state banking regulatory agencies, as an integral part of their examination processes, periodically review our subsidiary banks allowances for credit losses, and may require us to make additions to our allowance based on their judgment about information available to them at the time of their examinations. Management regularly reviews the assumptions and formulae used in determining the allowance and makes adjustments if required to reflect the current risk profile of the portfolio.

The allowance consists of specific and general components. The specific allowance relates to impaired loans. In general, impaired loans include those where interest recognition has been suspended, loans that are more than 90 days delinquent but because of adequate collateral coverage income continues to be recognized, and other criticized and classified loans not paying substantially according to the original contract terms. For such loans, an allowance is established when the discounted cash flows, collateral value or observable market price of the impaired loan are lower than the carrying value of that loan, pursuant to FASB ASC 310 *Receivables* (ASC 310). Loans not collateral dependent are evaluated based on the expected future cash flows discounted at the original contractual interest rate. The amount to which the present value falls short of the current loan obligation will be set up as a reserve for that account or charged-off.

The Company uses an appraised value method to determine the need for a reserve on impaired, collateral dependent loans and further discounts the appraisal for disposition costs. Due to the rapidly changing economic and market conditions of the regions within which we operate, the Company obtains independent collateral valuation analysis on a regular basis for each loan, typically every six months.

The general allowance covers all non-impaired loans and is based on historical loss experience adjusted for the various qualitative and quantitative factors listed above. The change in the allowance from one reporting period to the next may not directly correlate to the rate of change of the nonperforming loans for the following reasons:

1. A loan moving from impaired performing to impaired nonperforming does not mandate an increased reserve. The individual account is evaluated for a specific reserve requirement when the loan moves to impaired status, not when it

moves to nonperforming status, and is reevaluated at each subsequent reporting period. Because our nonperforming loans are predominately collateral dependent, reserves are primarily based on collateral value, which is not affected by borrower performance but rather by market conditions.

2. Not all impaired accounts require a specific reserve. The payment performance of the borrower may require an impaired classification, but the collateral evaluation may support adequate collateral coverage. For a number of impaired accounts in which borrower performance has ceased, the collateral coverage is now sufficient because a partial charge off of the account has been taken. In those instances, neither a general reserve nor a specific reserve is assessed.

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Transfers of financial assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed surrendered when 1) the assets have been isolated from the Company, 2) the transferee obtains the right to pledge or exchange the transferred assets and 3) the Company no longer maintains effective control over the transferred assets through an agreement to repurchase the transferred assets before maturity.

Off-balance sheet instruments

In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded. In addition to the exposure to credit losses from outstanding loans, the Company is also exposed to credit losses from certain off-balance sheet commitments such as unused loan commitments and letters of credit. Losses would be experienced when the Company is contractually obligated to make a payment under these instruments and must seek repayment from the borrower, which may not be as financially sound in the current period as they were when the commitment was originally made.

As with outstanding loans, the Company applies qualitative factors and utilization rates to its off-balance sheet obligations in determining an estimate of losses inherent in these contractual obligations. The estimate for credit losses on off-balance sheet instruments is included within other liabilities and the charge to income that establishes this liability is include in non-interest expense.

Other assets acquired through foreclosure

Other assets acquired through foreclosure consist primarily of properties acquired as a result of, or in-lieu-of, foreclosure. Properties or other assets (primarily repossessed assets formerly leased) are classified as other real estate owned and other repossessed property and are initially reported at fair value of the asset less selling costs, subsequent write downs are based on the lower of carrying value or fair value, less estimated costs to sell the property. Costs relating to the development or improvement of the assets are capitalized and costs relating to holding the assets are charged to non-interest expense. Property is evaluated regularly to ensure the recorded amount is supported by its current fair value and valuation allowances.

Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed principally by the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the terms of the lease or the estimated lives of the improvements, whichever is shorter. Depreciation and amortization is computed using the following estimated lives:

	Years
Bank premises	31
Equipment and furniture	3 - 10
Leasehold improvements	3 - 10

Management periodically reviews premises and equipment in order to determine if facts and circumstances suggest that the value of an asset is not recoverable.

Goodwill

The Company recorded as goodwill the excess of the purchase price over the fair value of the identifiable net assets acquired in accordance with applicable guidance. As per this guidance, a two-step process is outlined for impairment testing of goodwill. Impairment testing is generally performed annually, as well as when an event triggering impairment may have occurred. The first step tests for impairment, while the second step, if necessary, measures the impairment. The resulting impairment amount if any is charged to current period earnings as non-interest expense.

Other intangible assets

The Company s intangible assets consist of core deposit intangible assets, investment advisory and credit card intangibles, and are amortized over periods ranging from 6 to 12 years. The Company evaluates the remaining useful lives of its core deposit intangible assets each reporting period, as required by FASB ASC 350, *Intangibles Goodwill and Other,* to determine whether events and circumstances warrant a revision to the remaining period of amortization. If the

estimate of an intangible asset s remaining useful life has changed, the remaining carrying amount of the intangible asset is amortized prospectively over that revised remaining useful life. As a result of current economic conditions, the Company revised its estimates of the useful lives of its core deposit intangibles during the year ended December 31, 2008. The Company made no further changes to these revised lives in 2010 or 2009.

Income taxes

Western Alliance Bancorporation and its subsidiaries, other than BW Real Estate, Inc., file a consolidated federal tax return. Due to tax regulations, several items of income and expense are recognized in different periods for tax return purposes than for financial reporting purposes. These items represent temporary differences. Deferred taxes are provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and tax credit carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of Management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effect of changes in tax laws and rates on the date of enactment.

Although realization is not assured, The Company believes that the realization of the recognized net deferred tax asset of $79.9 million at December 31, 2010 is more likely than not based on expectations as to future taxable income and based on available tax planning strategies as defined in ASC 740 that could be implemented if necessary to prevent a carryforward from expiring.

The most significant source of these timing differences are the credit loss reserve build and net operating loss carryforwards which account for substantially all of the net deferred tax asset. In general, the Company will need to generate approximately $222 million of taxable income during the respective carryforward periods to fully realize its deferred tax assets.

As a result of the recent losses, the Company is in a three-year cumulative pretax loss position at December 31, 2010. A cumulative loss position is considered significant negative evidence in assessing the realizability of a deferred tax asset. The Company has concluded that there is sufficient positive evidence to overcome this negative evidence. This positive evidence includes Company forecasts, exclusive of tax planning strategies, that show realization of deferred tax assets by the end of 2013 based on current projections. In addition, the Company has evaluated tax planning strategies, including potential sales of businesses and assets in which it could realize the excess of appreciated value over the tax basis of its assets. The amount of deferred tax assets considered realizable, however, could be significantly reduced in the near term if estimates of future taxable income during the carryforward period are significantly lower than forecasted due to deterioration in market conditions.

Based on the above discussion, the net operating loss carryforward of 20 years provides sufficient time to utilize deferred federal and state tax assets pertaining to the existing net operating loss carryforwards and any NOL that would be created by the reversal of the future net deductions that have not yet been taken on a tax return.

Bank owned life insurance

Bank owned life insurance is stated at its cash surrender value with changes recorded in other non-interest income in the consolidated statements of operations. The face amount of the underlying policies including death benefits was $324.0 million and $218.3 million as of December 31, 2010 and 2009, respectively. There are no loans offset against cash surrender values, and there are no restrictions as to the use of proceeds.

Customer repurchase agreements

The Company occasionally enters into repurchase agreements with customers whereby it pledges securities against overnight investments made from the customer s excess collected funds. The Company records these at the amount of cash received in connection with the transaction.

Stock compensation plans

The Company has the 2005 Stock Incentive Plan (the Incentive Plan), as amended, which is described more fully in Note 13, Stockholder s Equity. Compensation expense for stock options and non-vested restricted stock awards is based on the fair value of the award on the measurement date, which, for the Company, is the date of the grant and is recognized ratably over the service period of the award. Prior to the Company s initial public offering (IPO) the Company used the minimum value method to calculate the fair value of stock options. Subsequent to the Company s

IPO, the Company utilizes the Black-Scholes option-pricing model to calculate the fair value of stock options. The fair value of non-vested restricted stock awards is the market price of the Company s stock on the date of grant. Prior to the Company s initial public offering (IPO), the Company used the minimum value method to calculate the fair value of stock options. Subsequent to the IPO, the Company utilizes the Black-Scholes model to calculate the fair value of options.

During the years ended December 31, 2010, 2009 and 2008, the Company granted stock options to the directors of its subsidiaries. Directors of subsidiaries do not meet the definition of an employee under FASB ASC 718, *Compensation*. Accordingly, the Company applies FASB ASC 505, *Equity* to determine the measurement date for options granted to these directors. Therefore, the expense related to these options is re-measured each reporting date until the options are vested.

The following table illustrates the effect on net income and earnings per share had compensation cost for all of the stock-based compensation plans been determined based on the grant date fair values of awards:

	December 31,		
	2010	2009	2008
	(in thousands, except per share amounts)		
Net (loss) income:			
Net (loss) income available to common stockholders	**$ (17,077)**	$ (161,148)	$ (237,541)
Deduct stock-based employee compensation expense determined under the minimum value method for all awards issued prior to the IPO	**(34)**	(423)	(534)
Related tax benefit for nonqualified stock options	**4**	51	64
Pro forma	**$ (17,107)**	$ (161,520)	$ (238,011)
Earnings (loss) per share:			
Basic - as reported	**$ (0.23)**	$ (2.74)	$ (7.27)
Basic - pro forma	**(0.23)**	(2.75)	(7.29)
Diluted - as reported	**(0.23)**	(2.74)	(7.27)
Diluted - pro forma	**(0.23)**	(2.75)	(7.29)

See Note 13, Stockholder s Equity for further discussion of stock options, stock warrants and restricted stock awards.

Preferred stock

On November 21, 2008, as part of the Capital Purchase Program established by the U.S. Department of the Treasury (Treasury) under the Emergency Economic Stabilization Act of 2008 (EESA), the Company entered into a Letter Agreement with Treasury pursuant to which the Company issued and sold to Treasury (i) 140,000 shares of the Company s Fixed Rate Cumulative Perpetual Preferred Stock, Series A, par value $0.0001 per share, having a liquidation preference of $1,000 per share (the Series A Preferred Stock) and (ii) a ten-year warrant to purchase up to 1,574,213 shares of the Company s common stock, par value $0.0001 per share, at an initial exercise price of $13.34 per share, for an aggregate purchase price of $140.0 million. The proceeds received were allocated to the preferred stock and additional paid-in-capital based on their relative fair values. The resulting discount on the preferred stock is amortized against retained earnings and is reflected in the Company s consolidated statement of income as Accretion on preferred stock discount, resulting in additional dilution to the Company s earnings per share. The warrants were included in the Company s diluted average common shares outstanding (subject to anti-dilution). Both the preferred stock and warrants were accounted for as additions to the Company s regulatory Tier 1 and Total capital.

Cumulative dividends on the Series A Preferred Stock will accrue on the liquidation preference at a rate of 5% per annum for the first five years, and at a rate of 9% per annum thereafter. The Series A Preferred Stock has no maturity date and ranks senior to the common stock with respect to the payment of dividends and distributions and amounts payable upon liquidation, dissolution and winding up of the Company.

The Series A Preferred Stock generally is non-voting, other than class voting on certain matters that could adversely affect the Series A Preferred Stock. If dividends on the Series A Preferred Stock have not been paid for an aggregate of six quarterly dividend periods or more, whether consecutive or not, the Company s authorized number of directors will be automatically increased by two and the holders of the Series A Preferred Stock, voting together with the holders of any then outstanding voting parity stock, will have the right to elect those directors at the Company s next

annual meeting of stockholders or at a special meeting of stockholders called for that purpose. These two directors will be elected annually and will serve until all accrued and unpaid dividends on the Series A Preferred Stock have been paid.

The Company may redeem the Series A Preferred Stock after February 15, 2012. Prior to this date, the Company may redeem the Series A Preferred Stock if (i) the Company has raised aggregate gross proceeds in one or more Qualified Equity Offerings (as defined below) in excess of $35 million and (ii) the aggregate redemption price does not exceed the aggregate net cash proceeds from such Qualified Equity Offerings. Any redemption is subject to the consent of the Board

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of Governors of the Federal Reserve System. A Qualified Equity Offering is the sale and issuance for cash by the Company, to persons other than the Company or any Company subsidiary after the closing, of shares of perpetual preferred stock, common stock or any combination of such stock, that, in each case, qualify as and may be included in Tier 1 capital of the Company at the time of issuance under the applicable risk-based capital guidelines of the Board of Governors of the FRB.

Prior to November 21, 2011, unless the Company has redeemed the Series A Preferred Stock or Treasury has transferred the Series A Preferred Stock to a third party, the consent of Treasury will be required for the Company to (1) pay any common stock dividend or (2) redeem, purchase or acquire any shares of the Company s common stock or other equity or capital securities, other than in connection with benefit plans consistent with past practice and certain other circumstances specified in the purchase agreement. The warrants are immediately exercisable.

The Company successfully completed a Qualified Equity Offering in May 2009. As a result, the number of the shares of common stock underlying the portion of the warrant then held by Treasury was reduced by one-half of the shares of common stock originally covered by the warrant. Pursuant to the purchase agreement, Treasury has agreed not to exercise voting power with respect to any shares of common stock issued upon exercise of the warrant. Based on a Black Scholes options pricing model, the common stock warrants have been assigned a fair value of $15.1 million in the aggregate, as of November 21, 2008. As a result, $15.1 million has been recorded as the discount on the preferred stock obtained above and will be accreted as a reduction in net income available for common stockholders over the next five years at approximately $2.7 million to $3.3 million per year. As of December 31, 2010, $5.9 million of the discount on preferred stock had been accreted resulting in an unaccreted discount on preferred stock on this date of $9.2 million.

No other shares of preferred stock are issued and outstanding. The Board of Directors has the authority, without further action by the stockholders, to issue preferred stock in one or more series and to fix the number of shares, designations, preferences, powers, and relative, participating, optional or other special rights. The issuance of additional preferred stock could decrease the amount of earnings and assets available for distribution to holders of common stock or adversely affect the rights and powers, including voting rights, of the holders of common stock, and may have the effect of delaying, deferring or preventing a change in control of the Company.

As discussed elsewhere in this Annual Report on Form 10-K, companies that participated in the Capital Purchase Program are subject to a number of restrictions regarding, among other things, executive compensation. See Item 1 Supervision and Regulation Recent Regulatory Initiatives beginning on page 54 for further information. In addition, provisions exist for limitations on the issuance of additional debt, including trust preferred securities and provisions that allow the Treasury to unilaterally amend the terms of the agreement.

Trust Assets and Investment Advisory Services

The Company had a trust subsidiary, Premier Trust, until September 1, 2010. In addition, the Company held interests in two registered investment advisors that have fiduciary responsibility for the assets they manage on behalf of customers. The Company divested 75% of its interest in Miller/Russell & Associates on December 31, 2009. These assets are not owned by the Company and are not reflected in the accompanying Consolidated Balance Sheets. Trust income was recorded on a cash basis and investment advisory service income is recorded on an accrual basis. At December 31, 2009, Premier Trust had $293.9 million in assets under management and $518.5 million in total trust assets. At December 31, 2009, Miller/ Russell & Associates had $1.08 billion in assets under management. At December 31, 2010 and 2009, Shine had $357.4 million and $346.1 million, respectively, in assets under management.

Fair values of financial instruments

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities. FASB ASC 820, *Fair Value Measurements and Disclosures* (ASC 820) establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The Company uses various valuation approaches, including market, income and/or cost approaches. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that

observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company s assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs, as follows:

Level 1 Observable quoted prices in active markets that are accessible at the measurement date for identical,

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unrestricted assets or liabilities.

Level 2 Observable quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques where all significant assumptions are observable, either directly or indirectly in the market.

Level 3 Model-based techniques where all significant assumptions are not observable, either directly or indirectly, in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques may include use of matrix pricing, discounted cash flow models and similar techniques.

The availability of observable inputs varies based on the nature of the specific financial instrument. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure. When market assumptions are available, ASC 820 requires the Company to make assumptions regarding the assumptions that market participants would use to estimate the fair value of the financial instrument at the measurement date.

FASB ASC 825, *Financial Instruments* (ASC 825) requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value.

Management uses its best judgment in estimating the fair value of the Company s financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction at December 31, 2010 or 2009. The estimated fair value amounts for 2010 and 2009 have been measured as of their year-end, and have not been reevaluated or updated for purposes of these consolidated financial statements subsequent to those dates. As such, the estimated fair values of these financial instruments subsequent to the reporting date may be different than the amounts reported at year-end.

The information in Note 17, Fair Value of Financial Instruments, should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only required for a limited portion of the Company s assets and liabilities.

Due to the wide range of valuation techniques and the degree of subjectivity used in making the estimate, comparisons between the Company s disclosures and those of other companies or banks may not be meaningful.

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

Cash and cash equivalents

The carrying amounts reported in the consolidated balance sheets for cash and due from banks and federal funds sold and other approximates their fair value.

Securities

The fair values of U.S. Treasuries, corporate bonds, and exchange-listed preferred stock are based on quoted market prices and are categorized as Level 1 of the fair value hierarchy.

The fair value of other investment securities were determined based on matrix pricing. Matrix pricing is a mathematical technique that utilizes observable market inputs including, for example, yield curves, credit ratings and prepayment speeds. Fair values determined using matrix pricing are generally categorized as Level 2 in the fair value hierarchy.

The Company owns certain collateralized debt obligations (CDOs) and structured notes for which quoted prices are not available. Quoted prices for similar assets are also not available for these investment securities. In order to

determine the fair value of these securities, the Company has estimated the future cash flows and discount rate using observable

market inputs adjusted based on assumptions regarding the adjustments a market participant would assume necessary for each specific security. As a result, the resulting fair values have been categorized as Level 3 in the fair value hierarchy.

Restricted stock

The Company s subsidiary banks are members of the Federal Home Loan Bank (FHLB) system and maintain an investment in capital stock of the FHLB. The Company s subsidiary banks also maintain an investment in their primary correspondent bank. These investments are carried at cost since no ready market exists for them, and they have no quoted market value. The Company conducts a periodic review and evaluation of our FHLB stock to determine if any impairment exists. The balance in 2009 includes investment in capital stock of the Federal Reserve Bank.

Loans

For variable rate loans that reprice frequently and that have experienced no significant change in credit risk, fair values are based on carrying values. Variable rate loans comprised approximately 64.1% and 66.8% of the loan portfolio at December 31, 2010 and 2009, respectively. Fair value for all other loans is estimated based on discounted cash flows using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality with adjustments that the Company believes a market participant would consider in determining fair value. As a result, the fair value for loans disclosed in Note 17, Fair Value of Financial Instruments, is categorized as Level 3 in the fair value hierarchy.

Accrued interest receivable and payable

The carrying amounts reported in the consolidated balance sheets for accrued interest receivable and payable approximate their fair value. Accrued interest receivable and payable fair value measurements disclosed in Note 17 Fair Value of Financial Instruments, are classified as Level 3 in the fair value hierarchy.

Derivative financial instruments

All derivatives are recognized on the balance sheet at their fair value. The fair value for derivatives is determined based on market prices, broker-dealer quotations on similar product or other related input parameters. As a result, the fair values have been categorized as Level 2 in the fair value hierarchy.

Deposit liabilities

The fair value disclosed for demand and savings deposits is by definition equal to the amount payable on demand at their reporting date (that is, their carrying amount) which the Company believes a market participant would consider in determining fair value. The carrying amount for variable-rate deposit accounts approximates their fair value. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on these deposits. The fair value measurement of the deposit liabilities disclosed in Note 17, Fair Value of Instruments, is categorized as Level 3 in the fair value hierarchy.

Federal Home Loan Bank and Federal Reserve advances and other borrowings

The fair values of the Company s borrowings are estimated using discounted cash flow analyses, based on the market rates for similar types of borrowing arrangements. The FHLB and FRB advances and other borrowings have been categorized as Level 3 in the fair value hierarchy.

Junior subordinated and subordinated debt

Junior subordinated debt and subordinated debt are valued by comparing interest rates and spreads to benchmark indices offered to institutions with similar credit profiles to our own and discounting the contractual cash flows on our debt using these market rates. The junior subordinated debt and subordinated debt have been categorized as Level 3 in the fair value hierarchy.

Off-balance sheet instruments

Fair values for the Company s off-balance sheet instruments (lending commitments and standby letters of credit) are based on quoted fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties credit standing.

Earnings per share

Diluted earnings per share is based on the weighted average outstanding common shares during each year, including common stock equivalents. Basic earnings per share is based on the weighted average outstanding common shares during the year.

Basic and diluted (loss) earnings per share, based on the weighted average outstanding shares, are summarized as follows:

	Year Ended December 31,		
	2010	2009	2008
	(in thousands, except per share amounts)		
Basic:			
Net income (loss) available to common stockholders	**$ (17,077)**	$ (161,148)	$ (237,541)
Average common shares outstanding	**75,083**	58,836	32,652
Earnings (loss) per share	**$ (0.23)**	$ (2.74)	$ (7.27)
Diluted:			
Net income (loss) available to common stockholders	**$ (17,077)**	$ (161,148)	$ (237,541)
Average common shares outstanding	**75,083**	58,836	32,652
Earnings (loss) per share	**$ (0.23)**	$ (2.74)	$ (7.27)

As of December 31, 2010, 2009 and 2008, all stock warrants, stock options and restricted stock were considered anti-dilutive and excluded for purposes of calculating diluted loss per share.

Recent accounting pronouncements

FASB ASC 810, *Consolidation* (ASC 810). Effective January 1, 2010, further new authoritative accounting guidance under ASC Topic 810 amends prior guidance to change how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity s purpose and design and a company s ability to direct the activities of the entity that most significantly impact the entity s economic performance. The new authoritative accounting guidance requires additional disclosures about the reporting entity s involvement with variable-interest entities and any significant changes in risk exposure due to that involvement as well as its affect on the entity s financial statements. The new authoritative accounting guidance under ASC Topic 810 was effective January 1, 2010 and did not have a significant impact on the Company s consolidated financial statements.

FASB ASC Topic 860, *Transfers and Servicing* (ASC 860) was amended to enhance reporting about transfers of financial assets including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. The new authoritative accounting guidance eliminates the concept of a qualifying special-purpose entity and changes the requirements for derecognizing financial assets. The new authoritative guidance also requires additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. The new authoritative accounting guidance under ASC 860 was effective January 1, 2010 and did not have a significant impact on the Company s consolidated financial statements.

Issued October 2009, ASU 2009-15, *Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing* amends FASB ASC Topic 470, *Debt* (ASC 470), and provides guidance for accounting and reporting for own-share lending arrangements issued in contemplation of a convertible debt issuance. At the date of issuance, a share-lending arrangement entered into on an entity s own shares should be measured at fair value in accordance with ASC 820 and recognized as an issuance cost, with an offset to additional paid-in capital. Loaned shares are excluded from basic and diluted earnings per share unless default of the

share-lending arrangement occurs. The amendments also require several disclosures including a description and the terms of the arrangement and the reason for entering into the arrangement. The effective dates of the amendments are dependent upon the date the share-lending arrangement was entered into and include retrospective application for arrangements outstanding as of the beginning of fiscal years beginning on or after December 15, 2009. The Company has no plans to issue convertible debt and, therefore, does not expect the update to have an impact on its consolidated financial statements.

In January 2010 the FASB issued ASU 2010-06, *Fair Value Measurements and Disclosures* Topic 820 which provides guidance requiring enhanced fair value disclosures about (1) the different classes of assets and liabilities measured at fair value, (2) the valuation techniques and inputs used, (3) the activity in level 3 fair value measurements and (4) the transfers between levels 1, 2, and 3. The increased disclosure requirements further set forth in the update that in the reconciliation for fair value measurements using significant unobservable inputs (level 3), a reporting entity should present separately information about purchases, sales, issuances and settlements (that is, gross amounts shall be disclosed as

opposed to a single net figure). The Company adopted these new disclosure requirements during 2010 except for the Level 3 activity which is not required until the first quarter of 2011.

In April 2010 the FASB issued ASU 2010-18, *Loan Modifications* Topic 310 which provides guidance that loans accounted for within a pool need not be removed from the pool when loan modifications are made, even if the modifications would otherwise be considered trouble debt restructurings. Under this guidance, an entity will continue to evaluate the pool of loans when performing its impairment analysis. The effective date of the amendments in this update is in the first interim period ending on or after July 15, 2010. The amendments are to be applied prospectively. The Company does not expect the adoption to have a significant impact on its consolidated financial statements.

In July 2010 the FASB issued ASU 2010-20, *Receivables* Topic 310 which amends Topic 310 to improve the disclosures that an entity provides about the credit quality of its financing receivables and related allowance for credit losses. An entity is required to disaggregate by portfolio segment or class certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. The Company adopted the period end disclosures provisions of the new authoritative guidance under ASC Topic 310 in the reporting period ending December 31, 2010. Adoption of the new guidance did not have an impact on the Company s consolidated financial statements. The disclosures about activity that occurs will be effective for reporting periods after January 1, 2011, and will have no impact on the Company s consolidated financial statements.

2. MERGERS, AQUISITIONS AND DISPOSITIONS

Bank Subsidiary Mergers

As of December 31, 2010, the Company merged its Alta Alliance Bank subsidiary into its Torrey Pines Bank subsidiary, and its First Independent Bank of Nevada subsidiary into its Alliance Bank of Arizona subsidiary. As part of the latter merger, Alliance Bank of Arizona was renamed Western Alliance Bank doing business as Alliance Bank of Arizona (in Arizona) and First Independent Bank (in Nevada). As the bank mergers did not meet the definition of a business combination under the guidance of ASC 805, *Business Combinations*, the entities were combined in method similar to a pooling of interests. There were $1.7 million of merger related expenses in the twelve months ended December 31, 2010.

Premier Trust Disposition

The Company divested its wholly owned subsidiary Premier Trust, Inc as of September 1, 2010 and recorded a $0.6 million gain on sale.

PartnersFirst Discontinued Operations

In the first quarter of 2010, the Company decided to discontinue its affinity credit card platform, PartnersFirst, and has presented certain activities as discontinued operations. The Company transferred certain assets with balances at December 31, 2010 of $0.1 million to held-for-sale and reported a portion of its operations as discontinued. At December 31, 2010 and 2009, the Company had $45.6 million and $50.2 million, respectively, of outstanding credit card loans which will have continuing cash flows related to the collection of these loans. These credit card loans are included in loans held for investment as of December 31, 2010 and 2009.

The following table summarizes the operating results of the discontinued operations for the periods indicated:

	Year Ended December 31,		
	2010	**2009**	**2008**
	(in thousands)		
Affinity card revenue	$ 1,808	$ 1,823	$ 891
Non-interest expenses	(7,023)	(9,483)	(12,011)
Loss before income taxes	(5,215)	(7,660)	(11,120)
Income tax benefit	(2,190)	(3,153)	(4,670)
Net loss	$ (3,025)	$ (4,507)	$ (6,450)

Miller Russell Disposition

Effective December 31, 2009, the Company sold a 75% interest in Miller/Russell & Associates, Inc (MRA) to certain members of the Miller/Russell management team for $2.7 million. The Company retains a 25% non-controlling interest in the post merger Miller/Russell Acquisition LLC. Alliance Bank of Arizona (now known as Western Alliance Bank), a

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wholly-owned subsidiary of the Company provided the buyers with a $2.1 million secured term loan for the purchase. For the year ended December 31, 2009, MRA contributed a small loss to the consolidated operations of the Company and was deconsolidated from the consolidated balance sheet. The Company retained the 25% non-controlling interest at cost, which approximated fair value at the close of the transaction and records its prorata share of income.

3. INVESTMENT SECURITIES

Carrying amounts and fair values of investment securities at December 31, 2010 and 2009 are summarized as follows:

	December 31, 2010			
Securities held-to-maturity	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized (Losses)**	**Fair Value**
	(in thousands)			
Collateralized debt obligations	$ 276	$ 459	$ -	$ 735
Corporate bonds	45,000	-	(632)	44,368
Municipal obligations	1,375	18	-	1,393
Other	1,500	-	-	1,500
	$ 48,151	$ 477	$ (632)	$ 47,996

Securities available-for-sale	**Amortized Cost**	**OTTI Recognized in Other Comprehensive Loss**	**Gross Unrealized Gains**	**Gross Unrealized (Losses)**	**Fair Value**
	(in thousands)				
US Government-sponsored agency securities	$ 280,299	$ -	$ 622	$ (3,329)	$ 277,592
Municipal obligations	312	-	1	(11)	302
Adjustable-rate preferred stock	66,255	-	1,410	(422)	67,243
Corporate securities	5,000	-	-	(93)	4,907
Direct obligation and GSE residential mortgage-backed securities	772,217	-	5,804	(8,632)	769,389
Private label residential mortgage-backed securities	9,203	(1,811)	1,811	(1,092)	8,111
Trust preferred securities	32,057	-	-	(8,931)	23,126
Other	22,265	-	99	(121)	22,243
	$ 1,187,608	$ (1,811)	$ 9,747	$ (22,631)	$ 1,172,913

Securities measured at fair value	
U.S. Government-sponsored agency securities	$ 2,511
Direct obligation and GSE residential mortgage-backed securities	11,790
	$ 14,301

For additional information on the fair value changes of the securities measured at fair value, see the trading securities table on page 115.

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	December 31, 2009					
Securities held-to-maturity	**Amortized Cost**	**OTTI Recognized in Other Comprehensive Loss**	**Net Carrying Amount**	**Gross Unrealized Gains**	**Gross Unrealized (Losses)**	**Fair Value**
			(in thousands)			
Collateralized debt obligations	$ 1,462	$ (544)	$ 918	$ 340	$ (340)	$ 918
Municipal obligations	5,064	-	5,064	-	-	5,064
Other	1,500	-	1,500	-	-	1,500
	$ 8,026	$ (544)	$ 7,482	$ 340	$ (340)	$ 7,482

Securities available-for-sale	**Amortized Cost**	**OTTI Recognized in Other Comprehensive Loss**	**Gross Unrealized Gains**	**Gross Unrealized (Losses)**	**Fair Value**
			(in thousands)		
Municipal obligations	$ 324	$ -	$ 2	$ (10)	$ 316
Adjustable-rate preferred stock	7,825	-	10,471	-	18,296
Direct obligation and GSE residential mortgage-backed securities	600,307	-	9,699	(4,250)	605,756
Private label residential mortgage-backed securities	12,829	(1,811)	1,045	(762)	11,301
Trust preferred securities	32,098	-	-	(10,048)	22,050
FDIC guarantee corporate bonds	71,680	-	104	(594)	71,190
Other	15,720	-	21	(52)	15,689
	$ 740,783	$ (1,811)	$ 21,342	$ (15,716)	$ 744,598

Securities measured at fair value	
U.S. Government-sponsored agency securities	$ 2,479
Direct obligation and GSE residential mortgage-backed securities	49,317
Private label residential mortgage-backed securities	6,874
	$ 58,670

The Company conducts an other-than-temporary impairment (OTTI) analysis on a quarterly basis. The initial indication of OTTI for both debt and equity securities is a decline in the market value below the amount recorded for an investment, and the severity and duration of the decline. In determining whether an impairment is OTTI, the Company considers the length of time and the extent to which the market value has been below cost, recent events specific to the issuer, including investment downgrades by rating agencies and economic conditions of its industry, and the Company s ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. For marketable equity securities, the Company also considers the issuer s financial condition, capital strength, and near-term prospects.

For debt securities and for ARPS that are treated as debt securities for the purpose of OTTI analysis, the Company also considers the cause of the price decline (general level of interest rates and industry- and issuer-specific factors), the issuer s financial condition, near-term prospects and current ability to make future payments in a timely manner, the issuer s ability to service debt, and any change in agencies ratings at evaluation date from acquisition date and any likely imminent action. For ARPS with a fair value below cost that is not attributable to the credit deterioration of the issuer, such as a decline in cash flows from the security or a downgrade in the security s rating below investment grade, the Company may avoid recognizing an OTTI charge by asserting that it has the intent and ability to retain its investment for a period of time sufficient to allow for any anticipated recovery in fair value.

Gross unrealized losses at December 31, 2010 are primarily caused by interest rate fluctuations, credit spread widening and reduced liquidity in applicable markets. The Company has reviewed securities on which there is an unrealized loss in accordance with its accounting policy for OTTI described above and recorded impairment charges totaling $1.2 million, $43.8 million, and $156.8 million for the twelve months ended December 31, 2010, 2009 and 2008, respectively. For

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2010, the impairment charges related to unrealized losses in the Company s CDO portfolio. For 2009, this includes $36.4 million related to impairment losses in the Company s ARPS, $3.4 million related to impairment losses to the Company s CDO portfolio and $4.0 million related to the Company s collateralized mortgage obligation (CMO) portfolio.

The Company does not consider any other securities to be other-than-temporarily impaired as of December 31, 2010 and 2009. However, without recovery in the near term such that liquidity returns to the applicable markets and spreads return to levels that reflect underlying credit characteristics, additional OTTI may occur in future periods.

Information pertaining to securities with gross unrealized losses at December 31, 2010 and 2009, aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

	December 31, 2010			
	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)			
Securities held-to-maturity				
Corporate bonds	$ 632	$ 39,368	$ -	$ -
	$ 632	$ 39,368	$ -	$ -

	December 31, 2010			
	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)			
Securities available-for-sale				
US Government-sponsored agency securities	$ 3,329	$ 173,561	$ -	$ -
Adjustable-rate preferred stock	422	21,549	-	-
Corporate securities	93	4,907		
Direct obligation and GSE residential mortgage-backed securities	8,562	425,248	69	8,798
Municipal obligations	11	206	-	-
Private label residential mortgage-backed securities	2	1,990	1,091	6,121
Trust preferred securities	-	-	8,931	23,126
Other	121	6,129	-	-
	$ 12,540	$ 633,590	$ 10,091	$ 38,045

December 31, 2009			
Less Than Twelve Months		Over Twelve Months	
Gross		Gross	

	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
	(in thousands)			
Securities held-to-maturity				
Collateralized debt obligations	$ 663	$ 724	$ 221	$ -
	$ 663	$ 724	$ 221	$ -

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	December 31, 2009			
	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)			
Securities available-for-sale				
Direct obligation and GSE residential mortgage-backed securities	$ 3,946	$ 285,044	$ 303	$ 23,847
Municipal obligations	10	207	-	-
Private label residential mortgage-backed securities	-	-	2,573	11,301
Trust preferred securities	594	51,110	10,048	22,050
Other	53	13,197	-	-
	$ 4,603	$ 349,558	$ 12,924	$ 57,198

At December 31, 2010 and 2009, 84 and 64 debt securities (excluding adjustable rate preferred stock, debt obligations and other structured securities), respectively, have unrealized losses with aggregate depreciation of approximately 1.2%, from the Company s amortized cost basis. These unrealized losses relate primarily to fluctuations in the current interest rate environment. In analyzing an issuer s financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysis reports. Since material downgrades have not occurred and management does not have the intent to sell the debt securities for the foreseeable future, none of the securities described in the above table or in this paragraph were deemed to be other than temporarily impaired.

At December 31, 2010 and 2009, two investments in trust preferred securities have unrealized losses with aggregate depreciation of approximately 27.9% and 31.3%, respectively, from the Company s amortized cost basis. These unrealized losses relate primarily to fluctuations in the current interest rate environment, and specifically to the widening of credit spreads on virtually all corporate and structured debt, which began in 2007. The Company has the intent and ability to hold trust preferred securities for the foreseeable future, none were deemed to be other than temporarily impaired.

At December 31, 2010, the net unrealized loss on trust preferred securities classified as AFS was $8.9 million, compared with $10.6 million at December 31, 2009. The Company is actively monitoring its debt and other structured securities portfolios classified as AFS for declines in fair value.

The amortized cost and fair value of securities as of December 31, 2010 and 2009, by contractual maturities, are shown below. The actual maturities of the mortgage-backed securities may differ from their contractual maturities because the loans underlying the securities may be repaid without any penalties. Therefore, these securities are listed separately in the maturity summary. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2010		December 31, 2009	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(in thousands)			
Securities held to maturity				
Due in one year or less	$ -	$ -	$ 2,029	$ 2,029
After one year through five years	999	1,011	648	648
After five years through ten years	40,376	39,843	1,387	1,387
After ten years	5,276	5,642	2,462	1,918
Other	1,500	1,500	1,500	1,500
	$ 48,151	$ 47,996	$ 8,026	$ 7,482
Securities available for sale				
Due in one year or less	$ 13,005	$ 13,632	$ -	$ -
After one year through five years	8,434	8,663	71,695	71,206
After five years through ten years	294,027	291,243	56	57
After ten years	77,660	67,743	40,176	40,589
Mortgage backed securities	772,217	769,389	613,136	617,057
Other	22,265	22,243	15,720	15,689
	$ 1,187,608	$ 1,172,913	$ 740,783	$ 744,598

The following table summarizes the Company s investment ratings position as of December 31, 2010.

Securities ratings profile
As of December 31, 2010

	Investment- grade (1)				Noninvestment-grade (1)	
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and below	Totals
	(in thousands)					
Municipal obligations	$ 40	$ 1,375	$ -	$ -	$ 262	$ 1,677
Direct & GSE residential mortgage-backed securities	781,179	-	-	-	-	781,179
Private label residential mortgage-backed securities	5,796	-	-	-	2,315	8,111
U.S. Government-sponsered agency securities	280,103	-	-	-	-	280,103
Adjustable-rate preferred stock	-	-	60,263	6,980	-	67,243
CDOs & trust preferred securities	-	-	21,681	1,445	276	23,402
Corporate bonds	-	5,000	44,907	-	-	49,907
Total (2)	$ 1,067,118	$ 6,375	$ 126,851	$ 8,425	$ 2,853	$ 1,211,622

(1) The Company used the average credit rating of the combination of S&P, Moody s and Fitch in the above table where ratings differed.

(2) Securities values are shown at carrying value as of December 31, 2010. Unrated securities consist of CRA investments with a carrying value of $22.2 million and an other investment of $1.5 million.

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Securities ratings profile
As of December 31, 2009

	Investment- grade (1)				Noninvestment-grade (1)	
	AAA	**AA+ to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ and below**	**Totals**
	(in thousands)					
Municipal obligations	$ 1,047	$ 2,392	$ -	$ -	$ -	$ 3,439
Direct & GSE residential mortgage-backed securities	657,552	-	-	-	-	657,552
Private label residential mortgage-backed securities	10,355	-	-	-	7,820	18,175
Adjustable-rate preferred stock	-	-	-	-	18,296	18,296
CDOs & trust preferred securities	-	-	20,700	1,350	919	22,969
FDIC guaranteed corporate bonds	71,190	-	-	-	-	71,190
Total (2)	$ 740,144	$ 2,392	$ 20,700	$ 1,350	$ 27,035	$ 791,621

(1) The Company used the average credit rating of the combination of S&P, Moody s and Fitch in the above table where ratings differed.

(2) Securities values are shown at carrying value as of December 31, 2009. Unrated securities consist of CRA investments with a carrying value of $15.7 million, municipals of $1.9 million and an other investment of $1.5 million.

Securities with carrying amounts of approximately $427.2 million and $491.9 million at December 31, 2010 and 2009, respectively, were pledged for various purposes as required or permitted by law.

As of December 31, 2010 the Company recorded gross gains and losses on sales of investment securities of $21.1 million and $4,400 respectively, compared to gross gains and losses on sales of securities for the year ended December 31, 2009 of $19.0 million and $2.9 million, respectively.

4. LOANS, LEASES AND ALLOWANCE FOR CREDIT LOSSES

The composition of the Company s loans held for investment portfolio is as follows:

	December 31,	
	2010	2009
	(in thousands)	
Commercial real estate owner occupied	$ 1,223,150	$ 1,091,363
Commercial real estate non-owner occupied	1,038,488	933,261
Commercial and industrial	744,659	685,089
Residential real estate	527,302	568,319
Construction and land development	451,470	623,198
Commercial leases	189,968	117,104
Consumer	71,545	80,300
Deferred fees and unearned income,net	(6,040)	(18,995)

	4,240,542	4,079,639
Allowance for credit losses	(110,699)	(108,623)
Total	$ 4,129,843	$ 3,971,016

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The following table presents the contractual aging of the recorded investment in past due loans by class of loans excluding deferred fees:

	December 31, 2010					
	Current	30-59 Days Past Due	60-89 Days Past Due	Over 90 days Past Due	Total Past Due	Total
	(in thousands)					
Commercial real estate						
Owner occupied	$ 1,195,219	$ 2,512	$ 10,314	$ 15,105	$ 27,931	$ 1,223,150
Non-owner occupied	947,784	1,111	1,022	5,543	7,676	955,460
Multi-family	80,857	-	-	2,407	2,407	83,264
Commercial and industrial						
Commercial	741,337	1,644	135	1,543	3,322	744,659
Leases	189,968	-	-	-	-	189,968
Construction and land development						
Construction	219,382	-	-	22,300	22,300	241,682
Land	199,773	338	-	9,678	10,016	209,789
Residential real estate	491,275	8,574	3,208	24,008	35,790	527,065
Consumer	69,027	655	460	1,403	2,518	71,545
Total loans	$ 4,134,622	$ 14,834	$ 15,139	$ 81,987	$ 111,960	$ 4,246,582

The following table presents the recorded investment in nonaccrual loans and loans past due ninety days or more and still accruing interest by class of loans:

	December 31, 2010	
	Non-accrual	Loans past due 90 days or more and still accruing
	(in thousands)	
Commercial real estate		
Owner occupied	$ 25,316	$ -
Non-owner occupied	12,189	-
Multi-family	2,752	-
Commercial and industrial		
Commercial	7,349	151
Leases	-	-
Construction and land development		
Construction	22,300	-

Land	14,223	-
Residential real estate	32,638	-
Consumer	232	1,307
Total	$ 116,999	$ 1,458

Nonaccrual loans and loans past due 90 days or more and still accruing interest were $159.2 million at December 31, 2009. The reduction in interest income associated with loans on nonaccrual status was approximately $6.0 million, $8.7 million and $1.8 million for the years ended December 31, 2010, 2009 and 2008, respectively.
The Company utilizes an internal asset classification system as a means of reporting problem and potential problem loans. Under the Company s risk rating system, the Company classifies problem and potential problem loans as Watch, Substandard, Doubtful , and Loss which correspond to risk ratings six, seven, eight, and nine, respectively Substandard loans include those characterized by well defined weaknesses and carry the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Loans classified as Doubtful, or risk rated eight, have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The final rating of Loss covers loans considered uncollectible and having such little

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recoverable value that it is not practical to defer writing off the asset. Loans that do not currently expose the Company to sufficient risk to warrant classification in one of the aforementioned categories, but possess weaknesses that deserve management s close attention are deemed to be Watch, or risk rated six. Risk ratings are updated, at a minimum, quarterly. The following tables present loans by risk rating:

	December 31, 2010					
	Pass	Watch	Substandard	Doubtful	Loss	Total
			(in thousands)			
Commercial real estate						
Owner occupied	$ 1,075,051	$ 89,731	$ 58,368	$ -	$ -	$ 1,223,150
Non-owner occupied	883,867	27,785	43,807	-	-	955,460
Multi-family	78,442	-	4,823	-	-	83,264
Commercial and industrial						
Commercial	699,177	27,252	17,426	804	-	744,659
Leases	186,262	51	3,655	-	-	189,968
Construction and land development						
Construction	200,375	12,086	29,220	-	-	241,682
Land	141,916	19,070	48,803	-	-	209,789
Residential real estate	460,591	17,647	48,828	-	-	527,065
Consumer	69,339	1,284	921	-	-	71,545
Total	$ 3,795,020	$ 194,905	$ 255,853	$ 804	$ -	$ 4,246,582

	December 31, 2010					
	Pass	Watch	Substandard	Doubtful	Loss	Total
			(in thousands)			
Current	$ 3,785,145	$ 188,555	$ 160,318	$ 607	$ -	$ 4,134,622
Past due 30 - 59 days	6,000	1,875	6,959	-	-	14,834
Past due 60 - 89 days	2,459	4,474	8,158	49	-	15,139
Past due 90 days or more	1,418	1	80,418	148	-	81,987
Total	$ 3,795,022	$ 194,905	$ 255,853	$ 804	$ -	$ 4,246,582

The table below reflects recorded investment in loans classified as impaired:

	December 31,	
	2010	2009
	(in thousands)	
Impaired loans with a specific valuation allowance under ASC 310	**$ 45,316**	$ 51,718
Impaired loans without a specific valuation allowance under ASC 310	**193,019**	181,754
Total impaired loans	**$ 238,335**	$ 233,472

Valuation allowance related to impaired loans	**$ (13,440)**	$ (13,383)

Net impaired loans were $238.3 million at December 31, 2010, a net increase of $4.9 million from December 31, 2009. This increase is primarily attributable to the increase in commercial real estate impaired loans, which were $85.4 million at December 31, 2009 compared to $123.9 million at December 31, 2010, an increase of $38.6 million. In addition, impaired residential real estate loans and impaired consumer and credit card loans also increased by $2.8 million and $0.5 million, respectively from $39.6 million and $0.2 million at December 31, 2009, $42.4 million and $0.8 million at December 31, 2010. Impaired construction and land and commercial and industrial loans declined from $89.3 million and $18.9 million, respectively, at December 31, 2009, to $58.4 million and $12.8 million at December 31, 2010.

The following table presents the impaired loans by class:

	December 31, 2010
	(in thousands)
Commercial real estate	
Owner occupied	$ 51,157
Non-owner occupied	67,959
Multi-family	4,823
Commercial and industrial	
Commercial	9,148
Leases	3,655
Construction and land development	
Construction	31,707
Land	26,708
Residential real estate	42,423
Consumer	755
Total	$ 238,335

A valuation allowance is established for an impaired loan when the fair value of the loan is less than the recorded investment. In certain cases, portions of impaired loans are charged-off to realizable value instead of establishing a valuation allowance and are included, when applicable in the table above as Impaired loans without specific valuation allowance under ASC 310. The valuation allowance disclosed above is included in the allowance for credit losses reported in the consolidated balance sheets as of December 31, 2010 and 2009.

	Year Ended December 31,		
	2010	2009	2008
	(in thousands)		
Average balance during the year on impaired loans	**$ 230,026**	$ 263,765	$ 192,561
Interest income recognized on impaired loans	**$ 7,636**	$ 10,459	$ 10,504
Interest recognized on impaired loans, cash basis	**$ 2,501**	$ 10,459	$ 9,046

The following table is average investment in impaired loans by loan class:

	Year Ended December 31, 2010
Commercial real estate owner occupied	**$ 54,633**
Commercial real estate non-owner occupied	**43,718**
Multi-family	**4,977**
Commercial and industrial	**11,715**
Leases	**2,076**
Construction	**28,930**
Land	**38,928**
Residential real estate	**44,286**
Consumer	**763**
Total	**$ 230,026**

The Company is not committed to lend significant additional funds on these impaired loans.

The following table summarizes nonperforming assets:

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	December 31,	
	2010	2009
	(in thousands)	
Nonaccrual loans	**$ 116,999**	$ 153,702
Loans past due 90 days or more on accrual status	**1,458**	5,538
Troubled debt restructured loans	**116,696**	46,480
Total nonperforming loans	**235,153**	205,719
Foreclosed collateral	**107,655**	83,347
Total nonperforming assets	**$ 342,808**	$ 289,066

Allowance for Credit Losses

The following table summarizes the allowance for credit losses:

	Year Ended December 31,		
	2010	2009	2008
Allowance for credit losses:	**(dollars in thousands)**		
Balance at beginning of period	**$ 108,623**	$ 74,827	$ 49,305
Provisions charged to operating expenses	**93,211**	149,099	68,189
Acquisitions	**-**	-	-
Recoveries of loans previously charged-off:			
Construction and land development	**3,197**	1,708	32
Commercial real estate	**1,003**	230	3
Residential real estate	**2,039**	545	43
Commercial and industrial	**3,000**	1,529	533
Consumer	**164**	173	37
Total recoveries	**9,403**	4,185	648
Loans charged-off:			
Construction and land development	**23,623**	35,807	16,715
Commercial real estate	**33,821**	16,756	2,912
Residential real estate	**20,663**	24,082	6,643
Commercial and industrial	**17,218**	38,573	15,937
Consumer	**5,213**	4,270	1,108
Total charged-off	**100,538**	119,488	43,315
Net charge-offs	**91,135**	115,303	42,667
Balance at end of period	**$ 110,699**	$ 108,623	$ 74,827

The following table presents loans individually evaluated for impairment by class of loans:

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	December 31, 2010			
	Unpaid Principal Balance	Recorded Investment	Partial Charge-offs	Allowance for Credit Losses Allocated
	(in thousands)			
With no related allowance recorded:				
Commercial real estate				
Owner occupied	$ 38,893	$ 36,811	$ 2,082	$ -
Non-owner occupied	72,705	66,156	6,549	-
Multi-family	7,087	4,478	2,609	-
Commercial and industrial				
Commercial	9,155	4,780	4,375	-
Leases	3,655	3,655	-	-
Construction and land development				
Construction	23,214	19,217	3,997	-
Land	31,237	24,807	6,430	-
Residential real estate	38,936	32,593	6,343	-
Consumer	548	522	26	-
With an allowance recorded:				
Commercial real estate				
Owner occupied	15,684	14,346	1,338	3,873
Non-owner occupied	1,961	1,804	157	530
Multi-family	358	346	12	179
Commercial and industrial				
Commercial	4,520	4,367	153	3,170
Leases	-	-	-	-
Construction and land development				
Construction	12,490	12,490	-	1,722
Land	5,018	1,901	3,117	1,124
Residential real estate	11,598	9,830	1,768	2,716
Consumer	232	232	-	126

Total	$ 277,291	$ 238,335	$ 38,956	$ 13,440

The following table presents the balance in the allowance for credit losses and the recorded investment in loans by portfolio segment and based on impairment method:

	December 31, 2010							
	Commercial Real Estate - Owner Occupied	**Commercial Real Estate - Non-Owner Occupied**	**Commercial and Industrial**	**Residential Real Estate**	**Construction and Land Development**	**Commercial Leases**	**Consumer**	**Total**
	(in thousands)							
Allowance for credit losses								
Ending balance attributable to loans individually evaluated for impairment	$ 3,873	$ 709	$ 3,170	$ 2,716	$ 2,846	$ -	$ 126	$ 13,440
Collectively evaluated for impairment	11,108	17,353	23,981	18,173	17,741	3,631	5,272	97,259
Acquired with deteriorated credit quality	-	-	-	-	-	-	-	-
Total ending allowance	$ 14,981	$ 18,062	$ 27,151	$ 20,889	$ 20,587	$ 3,631	$ 5,398	$ 110,699

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Related Parties

Principal stockholders of the Company and officers and directors, including companies they control, are considered to be related parties. In the ordinary course of business, the Company has extended credit to these related parties. Federal banking regulations require that any such extensions of credit not be offered on terms more favorable than would be offered to non-related party borrowers of similar creditworthiness. The following table summarizes the aggregate activity in such loans:

	Year Ended December 31,	
	2010	2009
	(in thousands)	
Balance, beginning	**$ 45,513**	$ 87,941
New loans	**12,465**	15,419
Repayments and other	**(21,169)**	(57,847)
Balance, ending	**$ 36,809**	$ 45,513

Included in repayments and other at December 31, 2010 and 2009, were reductions of $4.1 million and $35.6 million, respectively, related to resignations of directors or other related party relationship changes. None of these loans are past due, on nonaccrual status or have been restructured to provide a reduction or deferral of interest or principal because of deterioration in the financial position of the borrower. There were no loans to a related party that were considered classified loans at December 31, 2010 or 2009.

Loan commitments outstanding with related parties total approximately $39.8 million and $41.0 million at December 31, 2010 and 2009, respectively.

Loan Purchases and Sales

In 2010, the Company purchased $123.6 million of loans. The purchased loans consisted of $78.4 million commercial leases, $30.4 million commercial and industrial, $9.6 million of construction and $5.1 million of commercial real estate loans. In 2009, the Company purchased $27.0 million of loans. The purchased loans consisted of $22.2 million commercial real estate, $4.7 million commercial and industrial and $79,000 of residential real estate. In the fourth quarter 2009, the Company sold approximately $13.2 million of impaired loans to unrelated third parties. The Company had no significant loan sales in 2010. The Company held no loans for sale at December 31, 2010 and 2009, respectively.

5. PREMISES AND EQUIPMENT

	December 31,	
	2010	2009
	(in thousands)	
Land and improvements	**$ 30,580**	$ 31,585
Bank premises	**73,474**	72,710
Furniture, fixtures and equipment	**57,423**	60,374
Leasehold improvements	**13,243**	13,726
Construction in progress	**360**	1,655
	175,080	180,050
Less: accumulated depreciation and amortization	**(60,708)**	(54,167)
Premises and equipment, net	**$ 114,372**	$ 125,883

Lease Obligations

The Company leases certain premises and equipment under non-cancelable operating leases expiring through 2025. The following is a schedule of future minimum rental payments under these leases at December 31, 2010:

	(in thousands)
2011	$ 4,917
2012	4,626
2013	4,098
2014	2,557
2015	2,159
Thereafter	6,474
	$ 24,831

The Company leases the majority of its office locations and many of these leases contain multiple renewal options and provisions for increased rents. Total rent expense of $5.1 million, $5.4 million and $4.8 million is included in occupancy expenses for the years ended December 31, 2010, 2009 and 2008, respectively.

6. OTHER ASSETS ACQUIRED THROUGH FORECLOSURE

The following table represents the changes in other assets acquired through foreclosure:

	Year Ended December 31,		
	2010	2009	2008
		(in thousands)	
Balance, beginning of period	$ 83,347	$ 14,545	$ 3,412
Additions	93,656	104,610	24,060
Dispositions	(40,674)	(17,858)	(12,002)
Valuation adjustments in the period, net	(28,674)	(17,950)	(925)
Balance, end of period	$ 107,655	$ 83,347	$ 14,545

At December 31, 2010, 2009 and 2008, the majority of the Company s repossessed assets consisted of properties located in Nevada.

7. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill is created when a Company acquires a business. When a business is acquired, the purchased assets and liabilities are recorded at fair value and intangible assets are identified. Excess consideration paid to acquire a business over the fair value of the net assets is recorded as goodwill. During the fourth quarter 2010, the Company reviewed its goodwill for impairment in accordance with FASB ASC 350-20-35, *Intangibles Goodwill and Other*. The Company s annual goodwill impairment testing is October 1. As a result of this process, the Company determined that there was no goodwill impairment. Total goodwill impairment for the years ended December 31, 2009 and 2008 was $49.7 million and $138.8 million, respectively. There was no goodwill impairment in 2010.

During the third quarter 2009, the Company determined that it was necessary to perform an interim test for goodwill impairment on its former subsidiary Miller/Russell and Associates, Inc. As a result of this goodwill impairment test, the Company determined that the Miller/Russell reporting unit was impaired by $0.6 million.

During the first quarter 2009, as a result of the significant decline in the Company s stock price and depressed economic conditions among financial institutions in general, the Company determined that it was necessary to perform an interim test for goodwill impairment. As a result of the March 31 goodwill impairment test, the Company determined that the Bank of Nevada reporting unit was impaired by $45.0 million.

The goodwill impairment charges had no effect on the Company s cash balances or liquidity. In addition, because goodwill is not included in the calculation of regulatory capital, the Company s regulatory ratios were not affected by these non-cash expenses. No assurance can be given that goodwill will not be further impaired in future periods.

The following table presents the changes in goodwill:

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	Year Ended December 31,	
	2010	2009
	(in thousands)	
Beginning balance	**$ 25,925**	$ 78,966
Goodwill impairment charges	**-**	(49,671)
Divestiture of Miller/Russell and Associates	**-**	(3,370)
Ending Balance	**$ 25,925**	$ 25,925

Intangible Assets

The following is a summary of acquired intangible assets:

	Year Ended December 31, 2010			
Subject to amortization:	**Gross Carrying Amount**	**Accumulated Amortization**	**Sale of Premier Trust**	**Net Carrying Amount**
		(in thousands)		
Core deposit intangibles	$ 24,579	$ 13,029	$ -	$ 11,550
Other	3,779	1,737	226	1,816
	$ 28,358	$ 14,766	$ 226	$ 13,366

	Year Ended December 31, 2009		
Subject to amortization:	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**
		(in thousands)	
Core deposit intangibles	$ 24,579	$ 9,591	$ 14,988
Other	3,779	1,571	2,208
	$ 28,358	$ 11,162	$ 17,196

Amortization expense recognized on all amortizable intangibles totaled $3.6 million, $3.8 million and $3.6 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Below is a summary of estimated aggregate amortization expense over the next five years and thereafter:

Year Ended December 31:	
(in thousands)	
2011	$ 3,627
2012	3,276
2013	2,262
2014	1,331
2015	924

Thereafter	1,946

8. INCOME TAXES

The cumulative tax effects of the primary temporary differences as of December 31 are shown in the following table:

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	December 31,	
	2010	2009
	(in thousands)	
Deferred tax assets:		
Allowance for credit losses	**$ 40,732**	$ 40,866
Securities impairment losses	**-**	12,172
OREO writedowns	**8,070**	7,252
Net operating loss carryforwards	**34,291**	27,186
Stock based compensation	**5,102**	4,940
Nonaccrual interest	**3,126**	3,153
Credit carryforwards	**2,509**	2,509
Unrealized loss on available for sale securities	**5,281**	1,970
Capital loss carryforwards	**9,117**	4,051
Other	**1,804**	1,445
Total gross deferred tax assets	**110,032**	105,544
Deferred tax asset valuation allowance	**(7,596)**	(9,629)
Total deferred tax assets	**102,436**	95,915
Deferred tax liabilities:		
Core deposit intangible	**(4,043)**	(5,246)
Premises and equipment	**(5,495)**	(7,665)
Deferred loan costs	**(2,091)**	(2,092)
FHLB dividend	**(1,877)**	(1,872)
Unrealized gains on financial instruments measured at fair value	**(8,445)**	(9,361)
Other	**(625)**	(722)
Total deferred tax liabilities	**(22,576)**	(26,958)
Net deferred tax asset	**$ 79,860**	$ 68,957

Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.
For the year ended December 31, 2010, the net deferred tax assets increased $10.9 million to $79.9 million. This increase was primarily the result of taxable losses in the current year.
For the year ended December 31, 2010, the valuation allowance decreased by $2.0 million for certain deferred tax assets related to gains on the sale of previously impaired ARPS securities. The $7.6 million deferred tax valuation allowance at December 31, 2010 relates to net capital losses on ARPS securities sales.
The deferred tax asset related to federal and state net operating loss carryforwards outstanding at December 31, 2010, available to reduce taxable income in future years total $34.3 million. This is comprised of $30.6 million of tax benefits from federal and California state net operating loss carryforwards that will begin to expire in 2028, and $3.7 million of tax benefits from Arizona state net operating loss carryforwards that will begin to expire in 2013. In Management s opinion, it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred taxes related to these net operating loss carryforwards.
The provision for income taxes charged to operations consists of the following:

Year Ended December 31,

	2010	2009	2008
		(in thousands)	
Current	**$ 1,182**	$ 7,847	$ (38,496)
Deferred	**(7,592)**	(46,300)	(11,000)
Total tax provision	**$ (6,410)**	$ (38,453)	$ (49,496)

The reconciliation between the statutory federal income tax rate and the Company s effective tax rate are summarized as follows:

	Year Ended December 31,		
	2010	2009	2008
	(in thousands)		
Income tax at statutory rate	**$ (3,703)**	$ (64,873)	$ (97,827)
Increase (decrease) resulting from:			
State income taxes, net of federal benefits	**(739)**	(1,641)	(4,001)
Dividends received deductions	**(476)**	(442)	(752)
Bank-owned life insurance	**(1,155)**	(767)	(924)
Tax-exempt income	**(280)**	(338)	(444)
Nondeductible expenses	**340**	445	299
Nondeductible goodwill impairment	**-**	17,385	48,596
Deferred tax asset valuation allowance	**(2,033)**	6,200	3,400
Restricted stock write off	**1,259**	2,057	573
Other, net	**377**	3,521	1,584
	$ (6,410)	$ (38,453)	$ (49,496)

Uncertain Tax Position

The Company files income tax returns in the U.S. federal jurisdiction and in various states. With few exceptions, the Company is no longer subject to U.S. federal, state or local tax examinations by tax authorities for years before 2006. The Internal Revenue Service is currently examining the Company s 2008 net operating loss carryback claim.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period in which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above would be reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

The Company would recognize interest accrued related to unrecognized tax benefits in tax expense. The Company has not recognized or accrued any interest or penalties for the periods ended December 31, 2010, 2009 or 2008, respectively.

The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, on January 1, 2007, which were incorporated into ASC 740, Income Taxes. Management believes that the Company has appropriate support for the income tax positions taken and to be taken on its tax returns and that its accruals for tax liabilities are adequate for all open years based on an assessment of many factors, including past experience and interpretation of tax law applied to the facts of each matter.

The Internal Revenue Service s Examination Division issued a notice of proposed deficiency, on January 10, 2011, proposing a taxable income adjustment of $136.7 million related to deductions taken on our 2008 tax return in connection with the partial worthlessness of collateralized debt obligations, or CDOs. The use of these deductions on our 2008 tax return resulted in an approximately $40-million tax refund for the 2006 and 2007 taxable periods. The Company filed a protest of the proposed deficiency, which is expected to cause the matter to be referred to the Internal Revenue Service s Appeals Division. Although the Company believes that the CDO-related deductions will be respected for U.S. federal income tax purposes, there can be no assurance that the Internal Revenue Service will not successfully challenge some or all of such deductions. The Company has not accrued a reserve for this potential

exposure.

9. DEPOSITS

The table below summarizes deposits by type:

	December 31,	
	2010	2009
	(in thousands)	
Non-interest-bearing demand	**$ 1,443,251**	$ 1,157,013
Interest-bearing demand	**523,827**	362,682
Savings and money market	**1,926,060**	1,752,450
Certificate of deposit ($100,000 or more)	**1,276,369**	1,205,162
Other time deposits	**168,934**	244,795
Total deposits	**$ 5,338,441**	$ 4,722,102

Certificates of deposit are the only deposits which have a specified maturity. The balances of other deposit accounts are primarily assigned to the less than one-year time range. The summary of the scheduled maturities for all time deposits at December 31, is as follows:

	2010
	(in thousands)
2011	$ 1,363,424
2012	74,041
2013	6,022
2014	1,620
2015	196
	$ 1,445,303

As of December 31, 2010 and 2009, the Company had $20.0 million of wholesale-brokered deposits outstanding. In addition, the Company s banks are members of Certificate Deposit Account Registry Service (CDARS), which provides FDIC insurance for large deposits. Federal banking law and regulation places restrictions on depository institutions regarding brokered deposits because of the general concern that these deposits are at a greater risk of being withdrawn, thus posing liquidity risk for institutions that gather brokered deposits in significant amounts.

10. OTHER BORROWED FUNDS

The following table summarizes the Company s borrowings as of December 31, 2010 and 2009:

	December 31,	
	2010	2009
	(in thousands)	
Short Term		
Other short term debt	**$ -**	$ 20,000
Long Term		
Other long term debt	**$ 75,000**	$ 9,352

The Company maintains lines of credit with the Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB). The Company s borrowing capacity is determined based on collateral pledged, generally consisting of investment securities and loans, at the time of the borrowing. The Company also maintains credit lines with other sources secured by pledged securities. Short-term FHLB and FRB advances had weighted average interest rates of 0.24% and 0.25%

for the year ending December 31, 2010 and 2009, respectively. Other short-term debt consisted of a non-customer repurchase agreement, which matured in August 2010. The weighted average interest rate paid for other short-term debt was 4.60% at December 31, 2009.

On August 25, 2010, the Company completed a public offering of $75 million in principal Senior Notes due in 2015 bearing interest of 10%. The net proceeds of the offering were $72.8 million. The weighted average rate on all long term debt was 9.89% and 8.79% in 2010 and 2009, respectively.

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The Banks have entered into agreements with other financial institutions under which they can borrow up to $43.0 million on an unsecured basis. The lending institutions will determine the interest rate charged on borrowings at the time of the borrowing.

As of December 31, 2010, the Company had additional available credit with the FHLB and FRB of approximately $676.3 million and $547.0 million, respectively.

11. JUNIOR SUBORDINATED AND SUBORDINATED DEBT

The Company has formed or acquired through mergers six statutory business trusts, which exist for the exclusive purpose of issuing Cumulative Trust Preferred Securities. All of the funds raised from the issuance of these securities were passed to the Company and are reflected in the accompanying balance sheet as junior subordinated debt in the amount of $43.0 million. The junior subordinated debt has contractual balances and maturity dates as follows:

		December 31,	
Name of Trust	**Maturity**	**2010**	2009
BankWest Nevada Capital Trust II	2033	**15,464**	15,464
First Independent Capital Trust I	2034	**7,217**	7,217
Intermountain First Statutory Trust I	2034	**10,310**	10,310
WAL Trust No. 1	2036	**20,619**	20,619
WAL Statutory Trust No. 2	2037	**5,155**	5,155
WAL Statutory Trust No. 3	2037	**7,732**	7,732
		$ 66,497	$ 66,497
Unrealized gains on trust preferred securities measured at fair value, net		**(23,463)**	(24,059)
		$ 43,034	$ 42,438

The weighted average contractual rate of the junior subordinated debt was 4.34% and 4.37% as of December 31, 2010 and 2009, respectively.

In the event of certain changes or amendments to regulatory requirements or Federal tax rules, the debt is redeemable in whole. The obligations under these instruments are fully and unconditionally guaranteed by the Company and rank subordinate and junior in right of payment to all other liabilities of the Company. The trust preferred securities qualify as Tier 1 Capital for the Company, subject to certain limitations, with the excess being included in total capital for regulatory purposes. As of December 31, 2009, the Company had $60 million of subordinated debt with a weighted average contractual rate of 3.09%. The Company paid this debt in 2010 and recorded a gain on extinguishment of debt of $3.0 million.

12. COMMITMENTS AND CONTINGENCIES

Unfunded Commitments and Letters of Credit

The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. They involve, to varying degrees, elements of credit risk in excess of amounts recognized in the consolidated balance sheets.

Lines of credit are obligations to lend money to a borrower. Credit risk arises when the borrowers current financial condition may indicate less ability to pay than when the commitment was originally made. In the case of standby letters of credit, the risk arises from the possibility of the failure of the customer to perform according to the terms of a contract. In such a situation, the third party might draw on the standby letter of credit to pay for completion of the contract and the Company would look to its customer to repay these funds with interest. To minimize the risk, the Company uses the same credit policies in making commitments and conditional obligations as it would for a loan to that customer.

Standby letters of credit and financial guarantees are conditional commitments issued by the Company to guarantee the performance of a customer to a third party in borrowing arrangements. The Company generally has recourse to recover from the customer any amounts paid under the guarantees. Typically letters of credit issued have expiration dates within one year.

A summary of the contractual amounts for unfunded commitments and letters of credit are as follows:

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	December 31,	
	2010	**2009**
	(in thousands)	
Commitments to extend credit, including unsecured loan commitments of $156,517 at December 31, 2010 and $110,491 at December 31, 2009	**$ 702,336**	$ 682,870
Credit card commitments and financial guarantees	**322,798**	305,903
Standby letters of credit, including unsecured letters of credit of $3,076 at December 31, 2010 and $3,826 at December 31, 2009	**28,013**	38,891
	$ 1,053,147	$ 1,027,664

The following table represents the contractual commitments for lines and letters of credit by maturity at December 31, 2010:

	Total Amounts Committed	Amount of Commitment Expiration Per Period			
		Less Than 1 Year	1-3 Years	3-5 Years	After 5 Years
			(in thousands)		
Commitments to extend credit	$ 702,336	$ 482,320	$ 85,638	$ 43,154	$ 91,224
Credit card commitments and guarantees	322,798	322,798	-	-	-
Standby letters of credit	28,013	-	27,858	155	-
Total	$ 1,053,147	$ 805,118	$ 113,496	$ 43,309	$ 91,224

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer s creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management s credit evaluation of the party. The commitments are collateralized by the same types of assets used as loan collateral.

The Company has exposure to credit losses from unfunded commitments and letters of credit. As funds have not been disbursed on these commitments, they are not reported as loans outstanding. Credit losses related to these commitments are not included in the allowance for credit losses reported in Note 4, Loans, Leases and Allowance for Credit Losses of these Consolidated Financial Statements and are accounted for as a separate loss contingency as a liability. This loss contingency for unfunded loan commitments and letters of credit was $0.3 million as of December 31, 2010 and 2009. Changes to this liability are adjusted through other non-interest expense.

Concentrations of Lending Activities

The Company s lending activities are primarily driven by the customers served in the market areas where the Company has branch offices in the States of Nevada, California and Arizona. The Company monitors concentrations within five broad categories: geography, industry, product, call code, and collateral. The Company grants commercial, construction, real estate and consumer loans to customers through branch offices located in the Company s primary markets. The Company s business is concentrated in these areas and the loan portfolio includes significant credit exposure to the commercial real estate market of these areas. As of December 31, 2010 and 2009, commercial real estate related loans accounted for approximately 64% and 65% of total loans, respectively, and approximately 2% and 5% of commercial real estate loans, respectively, are secured by undeveloped land. Substantially all of these loans are secured by first liens with an initial loan to value ratio of generally not more than 75%. Approximately 54% of these

commercial real estate loans were owner occupied at December 31, 2010 and 2009. In addition, approximately 3% and 4% of total loans were unsecured as of December 31, 2010 and 2009, respectively.

Contingencies

The Company is involved in various lawsuits of a routine nature that are being handled and defended in the ordinary course of the Company s business. Expenses are being incurred in connection with defending the Company, but in the opinion of Management, based in part on consultation with legal counsel, the resolution of these lawsuits will not have a material impact on the Company s financial position, results of operations, or cash flows.

13. STOCKHOLDER S EQUITY

Stock Issuance

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On August 24, 2010, the Company completed a public offering of 8,050,000 shares of common stock, including 1,050,000 shares pursuant to the underwriter s over-allotment option, at a public offering price of $6.25 per share, for an aggregate offering price of $50.3 million. The net proceeds of the offering were approximately $47.6 million

On May 20, 2009, the Company closed a public offering of 33,440,700 shares of common stock, including 4,240,700 shares pursuant to the underwriters over-allotment option, at a public offering price of $6.00 per share, for an aggregate offering price of $200.6 million. The net proceeds of the offering were approximately $191.1 million.

Stock Repurchases

There were no stock repurchases in 2010 or 2009.

Stock Options and Restricted Stock

The 2005 Stock Incentive Plan (the Incentive Plan), as amended, gives the Board of Directors the authority to grant up to 6.5 million stock awards consisting of unrestricted stock, stock units, dividend equivalent rights, stock options (incentive and non-qualified), stock appreciation rights, restricted stock, and performance and annual incentive awards. Stock awards available for grant at December 31, 2010 are 1.8 million.

The Incentive Plan contains certain individual limits on the maximum amount that can be paid in cash under the Incentive Plan and on the maximum number of shares of common stock that may be issued pursuant to the Incentive Plan in a calendar year. The maximum number of shares subject to options or stock appreciation rights that can be issued under the Incentive Plan to any person is 150,000 shares in any calendar year. The maximum number of shares that can be issued under the Incentive Plan to any person, other than pursuant to an option or stock appreciation right, is 150,000 in any calendar year. The maximum amount that may be earned as an annual incentive award or other cash award in any fiscal year by any one person is $5.0 million and the maximum amount that may be earned as a performance award or other cash award by any one person is $15.0 million.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model that uses the assumptions noted in the following table. The expected volatility is based on the historical volatility of the stock of the Company over the expected life of the Company s options. The Company estimates the life of the options by calculating the average of the vesting period and the contractual life. The expected life of replacement options was estimated based on the simplified method. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. The dividends rate assumption of zero is based on management s intention not to pay dividends for the foreseeable future. A summary of the assumptions used in calculating the fair value of option awards during the years ended December 31, 2010, 2009 and 2008 are as follows:

	Year Ended December 31,		
	2010	2009	2008
Expected life in years	**5**	5	5
Risk-free interest rate	**2.5%**	1.5%	3.5%
Dividends rate	**None**	None	None
Fair value per optional share	**$ 3.22**	$ 3.73	$ 5.07
Volatility	**76%**	58%	30%

Stock options granted in 2010 generally have a vesting period of 4 years and a contractual life of 7 years. Restricted stock awards granted in 2010 generally have a vesting period of 3 years. The Company recognizes compensation cost for options with a graded vesting on a straight-line basis over the requisite service period for the entire award.

A summary of option activity under the Incentive Plan is presented below:

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	December 31, 2010			
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
		(dollars in thousands)		
Outstanding options, beginning of period	2,858	$ 14.71		
Granted	111	5.21		
Exercised	(30)	5.53		
Forfeited or expired	(407)	12.00		
Outstanding options, end of period	2,532	$ 14.82	3.1	$ 352
Options exercisable, end of period	2,027	$ 15.56	2.7	$ 262
Options expected to vest, end of period	434	$ 12.04	4.7	$ 90

A summary of the status of the Company s non-vested shares of restricted stock as of December 31, 2010 and changes during the year then ended is presented below:

Nonvested Restricted Stock	Shares (in thousands)	Weighted Average Grant Date Fair Value
Balance at January 1, 2010	609	$ 14.29
Granted	668	5.55
Vested	(210)	24.61
Forfeited	(67)	9.17
Balance at December 31, 2010	1,000	$ 6.61

As of December 31, 2010, 2009 and 2008, there was $6.1 million, $7.9 million, and $12.0 million, respectively, of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Incentive Plan. That cost is expected to be recognized over a weighted average period of 1.8 years, 1.7 years and 1.8 years, respectively. The total intrinsic value of options exercised during the years ended December 31, 2010, 2009, and 2008 were $50,000, $0 and $1.4 million, respectively. The total fair value of restricted stock that vested during the years ended December 31, 2010, 2009 and 2008 was $1.3 million, $1.7 million and $1.2 million, respectively. The weighted average grant-date fair value of restricted stock granted during the years ended December 31, 2010, 2009 and 2008 was $3.6 million, $2.7 million and $1.5 million, respectively.

Stock Warrants

At December 31, 2010, there were 131,684 warrants outstanding with an exercise price of $34.56 and expire August 2013.

Details of the warrants issued to the federal government as part of the Capital Purchase Program preferred stock offering are contained in Note 1, *Summary of Significant Accounting Policies* *Preferred Stock* on page 84.

Salary Shares

In 2010, the Company issued salary shares to certain individuals. Total shares issued at December 31, 2010 were 88,851 for compensation expense of $0.6 million. There were no salary shares issued in 2009 and 2008. Salary Shares are issued as Common Stock which vests immediately but are restricted until TARP is repaid.

14. REGULATORY CAPITAL REQUIREMENTS

The Company and the Banks are subject to various regulatory capital requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements could trigger certain mandatory or discretionary actions that, if undertaken, could have a direct material effect on the Company s business and financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Banks must meet specific capital guidelines that involve qualitative measures of their assets, liabilities, and certain off-balance sheet items

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as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Banks to maintain minimum amounts and ratios of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I leverage (as defined) to average assets (as defined). As of December 31, 2010, the Company and the Banks met all capital adequacy requirements to which they are subject.

As of December 31, 2010, the Company and each of its subsidiaries met the minimum capital ratio requirements necessary to be classified as well-capitalized, as defined by the banking agencies. To be categorized as well-capitalized, the Banks must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table below. In addition, memoranda of understanding to which the Company s bank subsidiaries are subject require them to maintain higher Tier 1 leverage ratios than otherwise required to be considered well-capitalized. At December 31, 2010, the capital levels at each of the banks exceeded these elevated requirements.

The actual capital amounts and ratios for the Banks and Company as of December 31 are presented in the following table:

	Total Capital	Tier 1 Capital	Risk-Weighted Assets	Tangible Average Assets	Total Capital Ratio	Tier 1 Capital Ratio	Tier 1 Leverage Ratio
			(dollars in thousands)				
December 31, 2010							
WAL (Consolidated)	$ 654,011	$ 591,633	$ 4,941,057	$ 6,198,903	13.2%	12.0%	9.5%
Bank of Nevada	278,697	250,907	2,177,357	2,705,631	12.8%	11.5%	9.3%
Western Alliance Bank	204,650	162,964	1,492,491	1,955,696	13.7%	10.9%	8.3%
Torrey Pines Bank	170,342	135,126	1,215,825	1,453,686	14.0%	11.1%	9.3%
Well-capitalized ratios					**10.0%**	**6.0%**	**5.0%**
Minimum capital ratios					**8.0%**	**4.0%**	**4.0%**
December 31, 2009							
WAL (Consolidated)	$ 666,287	$ 547,746	$ 4,632,891	$ 5,756,917	14.4%	11.8%	9.5%
Bank of Nevada	272,703	183,639	2,286,178	2,755,559	11.9%	8.0%	6.7%
Alliance Bank of Arizona	97,141	68,801	820,572	1,107,836	11.8%	8.4%	6.2%
Torrey Pines Bank	125,870	94,073	948,241	1,116,767	13.3%	9.9%	8.4%
First Independent Bank	54,669	44,058	444,981	526,746	12.3%	9.9%	8.4%
Alta Alliance Bank	23,552	22,105	114,528	174,588	20.6%	19.3%	12.7%
Well-capitalized ratios					10.0%	6.0%	5.0%
Minimum capital ratios					8.0%	4.0%	4.0%

Additionally, State of Nevada banking regulations restrict distribution of the net assets of Bank of Nevada because such regulations require the sum of the bank s stockholders equity and reserve for loan losses to be at least 6% of the average of the bank s total daily deposit liabilities for the preceding 60 days. As a result of these regulations, approximately $145.2 million and $133.9 million of Bank of Nevada s stockholders equity was restricted at

December 31, 2010 and 2009, respectively.

15. EMPLOYEE BENEFIT PLANS

The Company has a qualified 401(k) employee benefit plan for all eligible employees. Participants are able to defer between 1% and 15% (up to a maximum of $16,500 for those under 50 years of age in 2010) of their annual compensation. The Company may elect to match a discretionary amount each year, which was 50% of the first 6% of the participant s compensation deferred into the plan. The Company s total contribution was $1.2 million, $1.4 million and $1.1 million for the years ended December 31, 2010, 2009 and 2008, respectively.

In addition, the Company maintains a non-qualified 401(k) restoration plan for the benefit of executives of the Company and certain affiliates. Participants are able to defer a portion of their annual salary and receive a matching contribution based primarily on the contribution structure in effect under the Company s 401(k) plan, but without regard to certain

statutory limitations applicable under the 401(k) plan. The Company s total contribution to the restoration plan was approximately $14,000, $11,000, and $16,000 for the years ended December 31, 2010, 2009 and 2008, respectively.

16. FAIR VALUE ACCOUNTING

The Company adopted SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159), effective January 1, 2007. This standard was subsequently codified under FASB ASC 825, *Financial Instruments* (ASC 825). At the time of adoption, the Company elected to apply this fair value option (FVO) treatment to the following instruments:

Junior subordinated debt;

All investment securities previously classified as held to maturity, with the exception of tax-advantaged municipal bonds; and

All fixed-rate securities previously classified as available for sale.

The Company continues to account for these items under the fair value option. There were no financial instruments purchased by the Company in 2010 and 2009 which were elected to be accounted under the ASC 825 fair value election criteria, and therefore, no additional instruments have been added under the fair value option election.

All securities for which the fair value measurement option had been elected are included in a separate line item on the balance sheet entitled securities measured at fair value.

ASC 825 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 825 are described below:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques where all significant assumptions are observable, either directly or indirectly, in the market;

Level 3 Valuation is generated from model-based techniques where all significant assumptions are not observable, either directly or indirectly, in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques may include use of matrix pricing, discounted cash flow models and similar techniques.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company s creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time.

The Company s valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company s valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Furthermore, the reported fair value amounts have not been comprehensively revalued since the presentation dates, and therefore, estimates of fair value after the balance sheet date may differ significantly from the amounts presented herein.

For the twelve months ended December 31, 2010 and 2009, gains and losses from fair value changes included in the Consolidated Statement of Operations were as follows:

	Changes in Fair Values for the Year Ended December 31, 2010 for Items Measured at Fair Value Pursuant to Election of the Fair Value Option			
Description	Unrealized Gain/(Loss) on Assets and Liabilities Measured at Fair Value, Net	Interest Income on Securities	Interest Expense on Junior Subordinated Debt	Total Changes Included in Current-Period Earnings
	(in thousands)			
Securities measured at fair value	$ 227	$ 366	$	$ 593
Junior subordinated debt	(596)	-	(1,101)	(1,697)
	$ (369)	$ 366	$ (1,101)	$ (1,104)

	Changes in Fair Values for the Year Ended December 31, 2009 for Items Measured at Fair Value Pursuant to Election of the Fair Value Option (in thousands)			
Description	Unrealized Gain(/Loss) on Assets and Liabilities Measured at Fair Value, Net	Interest Income on Securities	Interest Expense on Junior Subordinated Debt and Borrowings	Total Changes Included in Current-Period Earnings
	(in thousands)			
Securities measured at fair value	$ 1,516	$ 989	$ -	$ 2,505
Junior subordinated debt	600	-	(941)	(341)
Fixed-rate term borrowings	1,515	-	-	1,515
	$ 3,631	$ 989	$ (941)	$ 3,679

The following table presents the portion of trading securities losses related to trading securities still held at the reporting date:

	December 31, 2010
	(in thousands)
Net gains and (losses) recognized during the period on trading securities	$ 227
	1,344

Less: net gains and (losses) recognized during the period on trading securities sold during the period		
Unrealized gains and (losses) recognized during the reporting period on trading securities still held at the reporting date	$	(1,117)

The difference between the aggregate fair value of junior subordinated debt ($43.0 million) and the aggregate unpaid principal balance thereof ($66.5 million) was $23.5 million at December 31, 2010.

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

Fair value on a recurring basis

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Financial assets and financial liabilities measured at fair value on a recurring basis include the following:
AFS Securities: Adjustable-rate preferred securities are reported at fair value utilizing Level 1 inputs. Other securities classified as AFS are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond s terms and conditions, among other things.
Securities measured at fair value: All of the Company s securities measured at fair value, the majority of which are mortgage-backed securities, are reported at fair value utilizing Level 2 inputs in the same manner as described above for securities available for sale.
Interest rate swap: Interest rate swaps are reported at fair value utilizing Level 2 inputs. The Company obtains dealer quotations to value its interest rate swaps.
Junior subordinated debt: The Company estimates the fair value of its junior subordinated debt using a discounted cash flow model which incorporates the effect of the Company s own credit risk in the fair value of the liabilities (Level 3). The Company s cash flow assumptions were based on the contractual cash flows based as the Company anticipates that it will pay the debt according to its contractual terms. The Company evaluated priced offerings on individual issuances of trust preferred securities and estimated the discount rate based, in part, on that information. The Company estimated the discount rate at 5.873%, which is a 557 basis point spread over 3 month LIBOR (0.303% as of December 31, 2010). As of December 31, 2009, the Company estimated the discount rate at 6.0%, which is a 575 basis point spread over 3 month LIBOR (0.25%).
The fair value of these assets and liabilities were determined using the following inputs at December 31, 2010 and 2009:

		Fair Value Measurements at Reporting Date Using:		
Description	**As of December 31, 2010**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Active Markets for Similar Assets (Level 2)**	**Unobservable Inputs (Level 3)**
		(in thousands)		
Assets:				
Securities available for sale	$ 1,172,913	$ 117,519	$ 1,055,394	$ -
Securities measured at fair value	14,301	-	14,301	-
Interest rate swaps	1,396	-	1,396	-
Total	$ 1,188,610	$ 117,519	$ 1,071,091	$ -
Liabilities:				
Junior subordinated debt	$ 43,034	$ -	$ -	$ 43,034
Interest rate swaps	1,396	-	1,396	-
Total	$ 44,430	$ -	$ 1,396	$ 43,034

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Description	As of December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Active Markets for Similar Assets (Level 2)	Unobservable Inputs (Level 3)
	(in thousands)			
Assets:				
Securities available for sale	$ 744,598	$ 111,536	$ 633,062	$ -
Securities measured at fair value	58,670	-	58,670	-
Interest rate swaps	1,139	-	1,139	-
Total	$ 804,407	$ 111,536	$ 692,871	$ -
Liabilities:				
Junior subordinated debt	$ 42,438	$ -	$ -	$ 42,438
Interest rate swaps	1,139	-	1,139	-
Total	$ 43,577	$ -	$ 1,139	$ 42,438

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Junior Subordinated Debt	Fixed-Rate Term Borrowings
	(in thousands)	
Beginning balance January 1, 2009	$ (43,038)	$ (31,515)
Total gains or losses (realized/unrealized)		
Included in earnings	600	1,515
Included in other comprehensive income	-	-
Purchases, issuances, and settlements, net	-	30,000
Transfers to held-to-maturity	-	-
Transfers in and/or out of Level 3	-	-
Ending balance December 31, 2009	(42,438)	-
Total gains or losses (realized/unrealized)		
Included in earnings	(596)	-
Included in other comprehensive income	-	-
Purchases, issuances, and settlements, net	-	-
Transfers to held-to-maturity	-	-

Transfers in and/or out of Level 3	-	-
Ending balance December 31, 2010	$ (43,034)	$ -
The amount of total 2010 gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to assets still held at the reporting date	$ (596)	$ -
The amount of total 2009 gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to assets still held at the reporting date	$ 600	$ 1,515

Fair value on a nonrecurring basis

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Certain assets are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents such assets carried on the balance sheet by caption and by level within the ASC 825 hierarchy as of December 31, 2010:

		Fair Value Measurements Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Active Markets for Similar Assets (Level 2)	Unobservable Inputs (Level 3)
		(in thousands)		
Impaired loans with specific valuation allowance	$ 31,876	$ -	$ -	$ 31,876
Impaired loans without specific valuation allowance	66,355	-	-	66,355
Goodwill valuation of reporting units	25,925	-	-	25,925
Other assets acquired through foreclosure	107,655	-	-	107,655
Collateralized debt obligations	735	-	-	735

The following table presents such assets carried on the balance sheet by caption and by level within the ASC 825 hierarchy as of December 31, 2009:

		Fair Value Measurements Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Active Markets for Similar Assets (Level 2)	Unobservable Inputs (Level 3)
		(in thousands)		
As of December 31, 2009:				
Impaired loans with specific valuation allowance	$ 38,335	$ -	$ -	$ 38,335
Impaired loans without specific valuation allowance	80,594	-	-	80,594
Goodwill valuation of reporting units	25,925	-	-	25,925
Other assets acquired through foreclosure	83,347	-	-	83,347
Collateralized debt obligations	918	-	-	918

Impaired loans: The specific reserves for collateral dependent impaired loans are based on the fair value of the collateral. The fair value of collateral is determined based on third-party appraisals. In some cases, adjustments are made to the appraised values due to various factors, including age of the appraisal (which are generally obtained every six months), age of comparables included in the appraisal, and known changes in the market and in the collateral. When significant adjustments are based on unobservable inputs, such as when a current appraised value is not

available or management determines the fair value of the collateral is further impaired below appraised value and there is no observable market price, the resulting fair value measurement has been categorized as a Level 3 measurement. These Level 3 impaired loans had an aggregate carrying amount of $45.3 million and specific reserves in the allowance for loan losses of $13.4 million as December 31, 2010.

Goodwill: In accordance with FASB ASC 350, *Intangibles - Goodwill and Other* (ASC 350), goodwill has been written down to its implied fair value of $25.9 million by charges to earnings in prior periods. Some of the inputs used to determine the implied fair value of the Company and the corresponding amount of the impairment included the quoted market price of our common stock, market prices of common stocks of other banking organizations, common stock trading multiples, discounted cash flows, and inputs from comparable transactions. The Company s adjustments were primarily based on the Company s assumptions, therefore the resulting fair value measurement was determined to be level 3.

Other assets acquired through foreclosure: Other assets acquired through foreclosure consist of properties acquired as a result of, or in-lieu-of, foreclosure. Properties or other assets classified as other assets acquired through foreclosure and other repossessed property and are initially reported at the fair value determined by independent appraisals using appraised value, less cost to sell. Such properties are generally re-appraised every six months. There is risk for subsequent volatility. Costs relating to the development or improvement of the assets are capitalized and costs relating to

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holding the assets are charged to expense. The Company had $107.7 million of such assets at December 31, 2010. When significant adjustments were based on unobservable inputs, such as when a current appraised value is not available or management determines the fair value of the collateral is further impaired below appraised value and there is no observable market price, the resulting fair value measurement has been categorized as a Level 3 measurement.

Collateralized debt obligations: The Company previously wrote down its trust-preferred CDO portfolio to $0.3 million when it determined these CDOs were other-than-temporarily impaired under generally accepted accounting principles due primarily to credit rating downgrades and the increase in deferrals and defaults by the issuers of the underlying CDOs. These CDOs represent interests in various trusts, each of which is collateralized with trust preferred debt issued by other financial institutions.

Credit vs. non-credit losses

The Company has elected to apply provisions of FASB ASC 320, *Investments Debt and Equity Securities* (ASC 320) as of January 1, 2009 to its AFS and HTM investment securities portfolios. The OTTI is separated into (a) the amount of total impairment related to the credit loss and (b) the amount of the total impairment related to all other factors. The amount of the total OTTI related to the credit loss is recognized in earnings. The amount of the total impairment related to all other factors is recognized in other comprehensive income. The OTTI is presented in the statement of operations with an offset for the amount of the total OTTI that is recognized in other comprehensive income.

As part of this adoption, the Company applied the criteria of ASC 320 in the determination of the amount of credit and other losses applicable to debt instruments held in its available-for-sale and held-to-maturity investment portfolios. The Company utilized a valuation specialist to evaluate and assist the Company in the determination of the amount and class of losses in its collateralized mortgage and collateralized debt obligation portfolios. In connection with this valuation, the Company evaluated significant inputs such as default rates, delinquency rates, collateral value ratios, subordination levels, vintage, geographic concentration and credit ratings of the securities in question.

If the Company does not intend to sell and it is not more likely than not that the Company will be required to sell the impaired securities before recovery of the amortized cost basis, the Company recognizes the cumulative effect of initially applying this ASC 320 as an adjustment to the opening balance of retained earnings with a corresponding adjustment to accumulated other comprehensive income, including related tax effects. The Company elected to early adopt ASC 320, *Investments Debt and Equity Securities* on its impaired securities portfolio since it provides more transparency in the consolidated financial statements related to the bifurcation of the credit and non-credit losses.

The following table provides the impact of adoption of ASC 320 on the Company s balance sheet as of January 1, 2009:

	Unrealized Non-Credit Losses Prior to Adoption	**Cumulative Effect Adjustment** (in thousands)	**Unrealized Non-Credit Losses After Adoption**
Unrealized non-credit impairment losses on held-to-maturity securities	$ -	$ 4,705	$ 4,705
Unrealized non-credit impairment losses on available-for-sale securities	-	2,831	2,831
Pre-tax cumulative effect adjustment		7,536	
Reversal of tax effect		(2,688)	
Cumulative effect adjustment, net		$ 4,848	

For the year ended December 31, 2010, the Company determined that certain collateralized mortgage debt securities contained credit losses. The impairment credit loss related to these debt securities was $1.2 million.

For the year ended December 31, 2009, the Company determined that certain collateralized mortgage debt securities met the applicable criteria for bifurcation of the credit losses and other market losses. The impairment credit loss related to these debt securities for the year ended December 31, 2009 was $1.2 million. The remaining loss due to other market factors was $1.8 million.

The following table presents a rollforward of the amount related to impairment credit losses recognized in earnings for the year ended December 31, 2010 and 2009:

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Debt Security Credit Losses
Recognized in Other Comprehensive Income/Earnings For the Year Ended December 31, 2010

	Debt Obligations and Structured Securities	Private Label Mortgage-Backed Securities
	(in thousands)	
Beginning balance of impairment losses held in other comprehensive income	$ (544)	$ (1,811)
Current period other-then temporary impairment credit recognized through earnings	544	-
Reductions for securities sold during the period	-	-
Additions or reductions in credit losses due to change of intent to sell	-	-
Reductions for increases in cash flows to be collected on impaired securities	-	-
Ending balance of net unrealized gains and (losses) held in other comprehensive income	$ -	$ (1,811)

Debt Security Credit Losses
Recognized in Other Comprehensive Income/Earnings For the Year Ended December 31, 2009

	Debt Obligations and Structured Securities	Private Label Mortgage-Backed Securities
	(in thousands)	
Beginning balance of impairment losses held in other comprehensive income	$ (4,705)	$ (2,831)
Current period other-then temporary impairment credit recognized through earnings	4,161	1,219
Reductions for securities sold during the period	-	-
Additions or reductions in credit losses due to change of intent to sell	-	-
Reductions for increases in cash flows to be collected on impaired securities	-	(199)
Ending balance of net unrealized gains and (losses) held in other comprehensive income	$ (544)	$ (1,811)

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of the Company s financial instruments is as follows:

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	December 31,			
	2010		2009	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
	(in thousands)			
Financial assets:				
Cash and due from banks	**$ 87,984**	**$ 87,984**	$ 116,841	$ 116,841
Federal funds sold	**918**	**918**	3,473	3,473
Money market investments	**37,733**	**37,733**	54,029	54,029
Investment securities - measured at fair value	**14,301**	**14,301**	58,670	58,670
Investment securities - available for sale	**1,172,913**	**1,172,913**	744,598	744,598
Investment securities - held to maturity	**48,151**	**47,996**	7,482	7,482
Derivatives	**1,396**	**1,396**	1,139	1,139
Restricted stock	**36,877**	**36,877**	41,378	41,378
Loans, net	**4,129,843**	**3,868,852**	3,971,015	3,654,227
Accrued interest receivable	**19,433**	**19,433**	18,742	18,742
Financial liabilities:				
Deposits	**5,338,441**	**5,341,701**	4,722,102	4,731,827
Accrued interest payable	**6,085**	**6,085**	4,179	4,179
Customer repurchases	**109,409**	**109,409**	223,269	223,269
Other borrowed funds	**72,964**	**85,454**	29,352	29,352
Junior subordinated debt	**43,034**	**43,034**	42,438	42,438
Subordinated debt	**-**	**-**	60,000	60,000
Derivatives	**1,396**	**1,396**	1,139	1,139

Interest rate risk

The Company assumes interest rate risk (the risk to the Company s earnings and capital from changes in interest rate levels) as a result of its normal operations. As a result, the fair values of the Company s financial instruments as well as its future net interest income will change when interest rate levels change and that change may be either favorable or unfavorable to the Company.

Interest rate risk exposure is measured using interest rate sensitivity analysis to determine our change in net portfolio value and net interest income resulting from hypothetical changes in interest rates. If potential changes to net portfolio value and net interest income resulting from hypothetical interest rate changes are not within the limits established by the Board of Directors, the Board of Directors may direct management to adjust the asset and liability mix to bring interest rate risk within board-approved limits. As of December 31, 2010, the Company s interest rate risk profile was within Board-approved limits.

Each of the Company s subsidiary banks has an Asset and Liability Management Committee charged with managing interest rate risk within Board approved limits. Such limits may vary by bank based on local strategy and other considerations, but in all cases, are structured to prohibit an interest rate risk profile that is significantly asset or liability sensitive. There exists an Asset and Liability Management Committee at the holding company levels that reviews the interest rate risk of each subsidiary bank, as well as, an aggregated position for the entire Company.

Fair value of commitments

The estimated fair value of standby letters of credit outstanding at December 31, 2010 and 2009 is insignificant. Loan commitments on which the committed interest rate is less than the current market rate are also insignificant at

December 31, 2010 and 2009.

18. PARENT COMPANY FINANCIAL INFORMATION

The condensed financial statements of the holding company are presented in the following pages.

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WESTERN ALLIANCE BANCORPORATION
Condensed Balance Sheets

	December 31, 2010	2009
	(in thousands)	
ASSETS:		
Cash and cash equivalents	**$ 2,552**	$ 21,848
Securities available for sale	**62,383**	92,246
Trading assets	**-**	5,052
Investment in subsidiaries	**612,879**	500,616
Other assets	**45,793**	1,351
	$ 723,607	$ 621,113
LIABILITIES AND STOCKHOLDERS EQUITY:		
Borrowings	**$ 72,964**	$ -
Accrued interest and other liabilities	**5,435**	2,950
Junior subordinated debt	**43,034**	42,438
Total liabilities	**121,433**	45,388
Stockholders equity:		
Preferred stock	**130,827**	127,945
Common stock	**8**	7
Additional paid-in capital	**739,561**	684,092
Retained deficit	**(258,800)**	(241,724)
Accumulated other comprehensive loss	**(9,422)**	5,405
Total stockholders equity	**602,174**	575,725
	$ 723,607	$ 621,113

WESTERN ALLIANCE BANCORPORATION
Condensed Statements of Operations

	Year Ended December 31, 2010	2009	2008
		(in thousands)	
Interest and dividend income	**$ 1,716**	$ 1,605	$ 8
Interest expense on borrowings	**5,642**	3,113	4,750
Net interest expense	**(3,926)**	(1,508)	(4,742)
Other income (loss):			
(Loss) from consolidated subsidiaries	**(5,843)**	(123,859)	(233,779)
Fair value (losses) gains	**(540)**	(17,938)	19,202
Other income	**15,263**	1,565	1,262

Total other income	**8,880**	(140,232)	(213,315)
Expenses:			
Salaries and employee benefits	**10,256**	7,325	7,425
Other	**9,662**	4,224	7,203
	19,918	11,549	14,628
Loss before income tax benefit	**(14,964)**	(153,289)	(232,685)
Income tax benefit (expense)	**7,769**	1,883	(3,775)
Net loss	**(7,195)**	(151,406)	(236,460)
Preferred stock dividends	**7,000**	7,000	778
Accretion on preferred stock discount	**2,882**	2,742	303
Net loss available to common stockholders	**$ (17,077)**	$ (161,148)	$ (237,541)

Western Alliance Bancorporation
Condensed Statements of Cash Flows

	Year Ended December 31,		
	2010	2009	2008
	(in thousands)		
Cash Flows from Operating Activities:			
Net income (loss)	**$ (7,195)**	$ (151,406)	$ (236,460)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Equity in net undistributed (earnings) losses of consolidated subsidiaries	**5,843**	123,859	233,779
Dividends received from subsidiaries	**517**	4,370	11,200
Stock-based compensation expense	**1,268**	1,296	1,037
Trust preferred securities fair value (gains) losses	**596**	600	(19,202)
Net amortization of premiums on investment securities	**112**	478	-
Securities impairment	**-**	1,463	-
Gain on sale of securities	**(11,681)**	(4,415)	-
(Increase) decrease in other assets	**(31,914)**	(4,332)	(1,154)
Deferred taxes	**(4,096)**	(15,261)	6,912
Increase (decrease) in other liabilities	**2,483**	17,852	717
Other, net	**-**	5,380	4,528
Net cash (used in) provided by operating activities	**(44,067)**	(20,116)	1,357
Cash Flows from Investing Activities:			
Purchases of securities	**(23,568)**	(304,790)	(5,325)
Proceeds from sales and maturities of securities	**52,815**	226,495	-
Purchase of premises and equipment	**(37)**	-	(1,516)
Proceeds from business divestitures	**2,284**	2,700	-
Investment in subsidiaries	**(120,500)**	(124,792)	(138,000)
Other,net	**-**	(78)	-
Net cash used in investing activities	**(89,006)**	(200,465)	(144,841)
Cash Flows from Financing Activities:			
Net (repayments) proceeds from borrowings	**72,844**	-	(21,730)
Proceeds from exercise of stock options and stock warrants	**359**	78	1,381
Excess tax benefits on share-based payment arrangements	**-**	-	23
Cost of issuing stock in acquisition or offering	**-**	-	(189)
Share repurchases	**-**	-	(356)
Dividends paid	**(7,000)**	(6,833)	**-**
Proceeds from stock issuances, net	**47,574**	191,268	220,215
Net cash provided by financing activities	**113,777**	184,513	199,344
Increase (decrease) in cash and cash equivalents	**(19,296)**	(36,068)	55,860

Cash and Cash Equivalents, beginning of year	**21,848**	57,916	2,056
Cash and Cash Equivalents, end of year	**$ 2,552**	$ 21,848	$ 57,916

19. SEGMENTS

The Company provides a full range of banking services and investment advisory services through its consolidated subsidiaries. Applicable guidance provides that the identification of reportable segments be on the basis of discreet business units and their financial information to the extent such units are reviewed by the entity s chief decision maker. The Company adjusted segment reporting composition during, 2010 to more accurately reflect the way the Company manages and assesses the performance of the business. During 2010, the Company sold its wholly owned trust subsidiary, discontinued a portion of its credit card services, and merged from five bank subsidiaries to three.

The re-defined structure at December 31, 2010 consists of the following segments: Bank of Nevada , Western Alliance Bank , Torrey Pines Bank and Other (Western Alliance Bancorporation holding company, Western Alliance Equipment Finance, Shine Investment Advisory Services, Inc, Premier Trust until September 1, 2010, and the discontinued

operations portion of the credit card services). All prior period balances were reclassified to reflect the change in structure.

The accounting policies of the reported segments are the same as those of the Company as described in Note 1, *Summary of Significant Accounting Policies.* Transactions between segments consist primarily of borrowed funds and loan participations. Federal funds purchased and sold and other borrowed funding transactions that resulted in inter-segment profits were eliminated for reporting consolidated results of operations. Loan participations were recorded at par value with no resulting gain or loss. The Company allocated centrally provided services to the operating segments based upon estimated usage of those services.

The Company does not have a single external customer from which it derives 10 percent or more of its revenues.

The following is a summary of selected operating segment information as of and for the years ended December 31, 2010, 2009 and 2008:

	Bank of Nevada	Western Alliance Bank	Torrey Pines Bank	Other	Inter-segment elimi-nations	Consoli-dated Company
	(in millions)					
At December 31, 2010						
Assets	$ 2,771.4	$ 1,927.5	$ 1,452.2	$ 731.0	$ (714.2)	$ 6,167.9
Gross loans and deferred fees, net	1,914.1	1,305.4	1,063.8	-	(42.8)	4,240.5
Less: Allowance for credit losses	(73.5)	(20.4)	(16.8)	-	-	(110.7)
Net loans	1,840.6	1,285.0	1,047.0	-	(42.8)	4,129.8
Goodwill	23.2	-	-	2.7	-	25.9
Deposits	2,388.3	1,671.1	1,281.6	-	(2.6)	5,338.4
Stockholders equity	310.6	163.3	135.5	609.6	(616.8)	602.2
No. of branches	12	16	11	-	-	39
No. of FTE	421	225	203	59.0	-	908

	Bank of Nevada	Western Alliance Bank	Torrey Pines Bank	Other	Inter-segment elimi-nations	Consoli-dated Company
	(in thousands)					
As of December 31, 2010:						
Net interest income	$ 104,536	$ 69,223	$ 62,714	$ (3,920)	$ -	$ 232,553
Provision for credit losses	76,669	6,374	10,168	-	-	93,211
Net interest income (loss) after provision for credit losses	27,867	62,849	52,546	(3,920)	-	139,342
Non-interest income	21,053	9,369	4,489	13,598	(1,673)	46,836
Non-interest expense	(90,336)	(51,270)	(38,893)	(17,932)	1,673	(196,758)

Income (loss) from continuing operations before income taxes	(41,416)	20,948	18,142	(8,254)	-	(10,580)
Income tax expense (benefit)	(15,010)	8,147	7,825	(7,372)	-	(6,410)
Income(loss) from continuing operations	(26,406)	12,801	10,317	(882)	-	(4,170)
Loss from discontinued operations, net	-	-	-	(3,025)	-	(3,025)
Net income (loss)	$ (26,406)	$ 12,801	$ 10,317	$ (3,907)	$ -	$ (7,195)

	Bank of Nevada	Western Alliance Bank	Torrey Pines Bank	Other	Inter-segment elimi-nations	Consoli-dated Company
			(in millions)			
At December 31, 2009:						
Assets	$ 2,779.1	$ 1,640.8	$ 1,338.1	$ 132.8	$ (137.5)	$ 5,753.2
Gross loans and deferred fees, net	2,072.4	1,125.4	924.8	-	(43.0)	4,079.6
Less: Allowance for credit losses	(67.8)	(26.3)	(14.5)	-	-	(108.6)
Net loans	2,004.6	1,099.1	910.3	-	(43.0)	3,971.0
Goodwill	23.2	-	-	2.7	-	25.9
Customer deposits	2,203.8	1,439.8	1,081.9	-	(3.4)	4,722.1
Stockholders equity	251.7	121.9	122.0	85.7	(5.6)	575.7
No. of branches	12	16	9	-	-	37
No. of FTE	438	224	205	63	-	930

	Bank of Nevada	Western Alliance Bank	Torrey Pines Bank	Other	Inter-segment elimi-nations	Consoli-dated Company
			(in thousands)			
As of December 31, 2009						
Net interest income	$ 106,014	$ 52,521	$ 45,205	$ (1,451)	$ -	$ 202,289
Provision for credit losses	104,859	30,450	13,790	0	-	149,099
Net interest income after provision for credit losses	1,155	22,071	31,415	(1,451)	-	53,190
Non-interest income	6,093	5,617	4,319	(7,009)	(4,585)	4,435
Goodwill impairment charge	(45,000)	-	-	(4,670)	-	(49,670)
Non-interest expense	(87,977)	(51,832)	(40,383)	(17,700)	4,585	(193,307)
Income (loss) from continuing operations before income taxes	(125,729)	(24,144)	(4,649)	(30,830)	-	(185,352)
Income tax expense (benefit)	(28,074)	(8,542)	(1,386)	(451)	-	(38,453)
Income(loss) from continuing operations	(97,655)	(15,602)	(3,263)	(30,379)	-	(146,899)
Loss from discontinued operations, net	-	-	-	(4,507)	-	(4,507)

Net income (loss)	$ (97,655)	$ (15,602)	$ (3,263)	$ (34,886)	$ -	$ (151,406)

	Bank of Nevada	**Western Alliance Bank**	**Torrey Pines Bank**	**Other**	**Inter-segment Elimi-nations**	**Consoli-dated Company**
			(in thousands)			
As of December 31, 2008:						
Net interest income	$ 111,984	$ 48,688	$ 38,904	$ (4,668)	$ -	$ 194,908
Provision for loan losses	47,437	12,392	8,360	-	-	68,189
Net interest income (loss) after provision for credit losses	64,547	36,296	30,544	(4,668)	-	126,719
Noninterest income	(102,226)	(22,755)	(26,999)	37,882	(3,160)	(117,258)
Goodwill impairment charge	(59,515)	(79,329)	-	-	-	(138,844)
Other non-interest expense	(64,085)	(39,870)	(28,493)	(20,835)	3,160	(150,123)
Income (loss) before income taxes	(161,279)	(105,658)	(24,948)	12,379	-	(279,506)
Income tax expense (benefit)	(36,949)	(10,259)	(10,164)	7,876	-	(49,496)
Net loss from continuing operations	(124,330)	(95,399)	(14,784)	4,503	-	(230,010)
Loss from discontinued operations, net	-			(6,450)		(6,450)
Net income (loss)	$ (124,330)	$ (95,399)	$ (14,784)	$ (1,947)	$ -	$ (236,460)

20. QUARTERLY FINANCIAL DATA (UNAUDITED)

	December 31, 2010			
	Fourth Quarter	*Third Quarter*	*Second Quarter*	*First Quarter*
	(in thousands, except per share amounts)			
Interest and dividend income	**$ 72,374**	**$ 70,705**	**$ 70,000**	**$ 68,734**
Interest expense	**11,463**	**11,237**	**12,544**	**14,016**
Net interest income	**60,911**	**59,468**	**57,456**	**54,718**
Provision for loan losses	**18,384**	**22,965**	**23,115**	**28,747**
Net interest income (loss), after provision for credit losses	**42,527**	**36,503**	**34,341**	**25,971**
Non-interest income (loss)	**(720)**	**12,167**	**20,760**	**14,629**
Non-interest expenses	**(56,545)**	**(46,109)**	**(53,262)**	**(40,843)**
Income (loss) from continuing operations before income taxes	**(14,738)**	**2,561**	**1,839**	**(243)**
Income tax (benefit) expense	**(4,580)**	**(79)**	**(190)**	**(1,562)**
Loss from continuing operations	**(10,158)**	**2,640**	**2,029**	**1,319**
Loss from discontinued operations net of tax benefit	**(657)**	**(631)**	**(802)**	**(935)**
Net (loss) income	**$ (10,815)**	**$ 2,009**	**$ 1,227**	**$ 384**
Earnings (loss) per share:				
Basic	**$ (0.17)**	**$ (0.01)**	**$ (0.02)**	**$ (0.03)**
Diluted	**$ (0.17)**	**$ (0.01)**	**$ (0.02)**	**$ (0.03)**

	December 31, 2009			
	Fourth Quarter	*Third Quarter*	*Second Quarter*	*First Quarter*
	(in thousands, except per share amounts)			
Interest and dividend income	$ 67,813	$ 67,746	$ 70,296	$ 70,168
Interest expense	16,025	18,776	19,495	19,438
Net interest income	51,788	48,970	50,801	50,730
Provision for loan losses	40,792	50,750	37,573	19,984
Net interest income (loss), after provision for credit losses	10,996	(1,780)	13,228	30,746

Non-interest income (loss)	4,269	12,547	15,447	(27,828)
Non-interest expenses	(51,320)	(50,448)	(50,173)	(91,036)
Income (loss) from continuing operations before income taxes	(36,055)	(39,681)	(21,498)	(88,118)
Income tax (benefit) expense	(10,258)	(16,724)	(8,427)	(3,044)
Loss from continuing operations	(25,797)	(22,957)	(13,071)	(85,074)
Loss from discontinued operations net of tax benefit	(1,115)	(958)	(1,066)	(1,368)
Net (loss) income	$ (26,912)	$ (23,915)	$ (14,137)	$ (86,442)
Earnings (loss) per share:				
Basic	$ (0.41)	$ (0.37)	$ (0.31)	$ (2.33)
Diluted	$ (0.41)	$ (0.37)	$ (0.31)	$ (2.33)

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

As of the end of the period covered by this Annual Report on Form 10-K, an evaluation was carried out by the Company s management, with the participation of its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e), under the Securities Exchange Act of 1934. Based upon that evaluation, the Company s Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of the end of the period covered by this report. No changes were made to the Company s internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) during the last fiscal quarter that materially affected, or are reasonably likely to affect, the Company s internal control over financial reporting.

MANAGEMENTS REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Western Alliance Bancorporation (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting. The Company s internal control over financial reporting is a process designed under the supervision of the Company s Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company s financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

As of December 31, 2010, management assessed the effectiveness of the Company s internal control over financial reporting based on the criteria for effective internal control over financial reporting established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) of the Treadway Commission. Based on this assessment, management determined that the Company maintained effective internal control over financial reporting as of December 31, 2010, based on those criteria.

McGladrey & Pullen, LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K has issued an attestation report on the effectiveness of the Company s internal control over financial reporting as of December 31, 2010. The report, which expresses an unqualified opinion on the effectiveness of the Company s internal control over financial reporting as of December 31, 2010, is included herein.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Western Alliance Bancorporation

We have audited Western Alliance Bancorporation s (the Company) internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Western Alliance Bancorporation s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that *(a)* pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; *(b)* provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and *(c)* provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Western Alliance Bancorporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of Western Alliance Bancorporation and our report dated March 4, 2011 expressed an unqualified opinion.

/s/ McGLADREY & PULLEN, LLP

Las Vegas, Nevada
March 4, 2011

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ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated by reference from the Company s Definitive Proxy Statement for the 2011 Annual Meeting of Stockholders to be held on April 26, 2011.

The Company has adopted a Code of Conduct applicable to all of our directors and employees, including the principal executive officer, principal financial officer and principal accounting officer. A copy of the Code of Conduct is available on the Company s website at www.westernalliancebancorp.com.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference from the Company s Definitive Proxy Statement for the 2011 Annual Meeting of Stockholders to be held on April 26, 2011.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated by reference from the Company s Definitive Proxy Statement for the 2011 Annual Meeting of Stockholders to be held on April 26, 2011.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated by reference from the Company s Definitive Proxy Statement for the 2011 Annual Meeting of Stockholders to be held on April 26, 2011.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated by reference from the Company s Definitive Proxy Statement for the 2011 Annual Meeting of Stockholders to be held on April 26, 2011.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(1) The following financial statements are incorporated by reference from Item 8 hereto:

Report of Independent Registered Public Accounting Firm	Page 70
Consolidated Balance Sheets as of December 31, 2010 and 2009	Page 72
Consolidated Statements of Operations for the three years ended December 31, 2010, 2009 and 2008	Page 73
Consolidated Statements of Comprehensive Income (Loss) for the three years ended December 31, 2010, 2009 and 2008	Page 76
Consolidated Statements of Stockholders Equity for the three years ended December 31, 2010, 2009 and 2008	
Consolidated Statements of Cash Flows for the three years ended December 31, 2010, 2009 and 2008	Page 77
Notes to Consolidated Financial Statements	Page 79

(2) *Financial Statement Schedules*

Not applicable.

On the Exhibit Index, a ± identifies each management contract or compensatory plan or arrangement required to be filed as an exhibit to this Annual Report.

EXHIBITS

3.1 Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 to Amendment No. 1 to Western Alliance s Registration Statement on Form S-1 filed with the SEC on June 7, 2005).

3.2 Amended and Restated By-Laws (incorporated by reference to Exhibit 3.1 to Western Alliance s Form 8-K filed with the SEC on January 25, 2008).

3.3 Certificate of Designations for the Fixed Rate Cumulative Perpetual Preferred Stock, Series A, of Western Alliance Bancorporation (incorporated by reference to Exhibit 3.1 to Western Alliance s Form 8-K filed with the SEC on November 25, 2008).

3.4 Amended and Restated By-Laws (incorporated by reference to Exhibit 3.1 to Western Alliance s Form 8-K filed with the SEC on January 25, 2008).

3.5 Amendment to Amended and Restated By-Laws (incorporated by reference to Exhibit 3.1 to Western Alliance s Form 8-K filed with the SEC on September 20, 2010).

3.6 Certificate of Amendment to Amended and Restated Articles of Incorporation of Western Alliance Bancorporation (incorporated by reference to Exhibit 3.1 to Western Alliance s Form 8-K filed with the SEC on May 3, 2010).

3.7 Certificate of Amendment to Amended and Restated Articles of Incorporation of Western Alliance Bancorporation (incorporated by reference to Exhibit 3.1 to Western Alliance s Form 8-K filed with the SEC on

November 30, 2010).

4.1 Form of common stock certificate (incorporated by reference to Exhibit 4.1 to Amendment No. 3 to Western Alliance s Registration Statement on Form S-1 filed with the SEC on June 27, 2005).

4.2 Form of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, stock certificate (incorporated by reference to Exhibit 4.1 to Western Alliance s Form 8-K filed with the SEC on November 25, 2008).

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4.3 Form of Warrant to purchase shares of Western Alliance Bancorporation common stock, dated December 12, 2003, together with a schedule of warrant holders (incorporated by reference to Exhibit 10.9 to Western Alliance s Registration Statement on Form S-1 filed with the SEC on April 28, 2005). ±

4.4 Warrant, dated November 21, 2008, by and between Western Alliance Bancorporation and the United States Department of the Treasury (incorporated by reference to Exhibit 4.2 to Western Alliance s Form 8-K filed with the SEC on November 25, 2008).

4.5 Senior Debt Indenture, dated August 25, 2010, between Western Alliance Bancorporation and Wells Fargo Bank, National Association, as trustee. (incorporated by reference to Exhibit 4.1 to Western Alliance s Form 8-K filed with the SEC on August 25, 2010).

4.6 First Supplemental Indenture, dated August 25, 2010, between Western Alliance Bancorporation and Wells Fargo Bank, National Association, as trustee. (incorporated by reference to Exhibit 4.2 to Western Alliance s Form 8-K filed with the SEC on August 25, 2010).

4.7 Form of 10.00% Senior Notes due 2015 (incorporated by reference to Exhibit 4.3 to Western Alliance s Form 8-K filed with the SEC on August 25, 2010).

10.1 Employment Agreement by and between Western Alliance Bancorporation and Mr. Markham (incorporated by reference to Exhibit 5.1 to Western Alliance s Registration Statement on Form 8-K filed with the SEC on April 23, 2007).±

10.2 Employment Agreement by and between Western Alliance Bancorporation and Mr. Grisham (incorporated by reference to Exhibit 10.1 to Western Alliance s Registration Statement on Form 8-K filed with the SEC on April 2, 2007). ±

10.3 Employment Agreement by and between Western Alliance Bancorporation and Mr. Woodrum (incorporated by reference to Exhibit 10.2 to Western Alliance s Registration Statement on Form 8-K filed with the SEC on April 2, 2007). ±

10.4 Agreement and Plan of Merger By and Between Western Alliance Bancorporation and First Independent Capital of Nevada (incorporated by reference to Appendix A to Western Alliance s Form S-4 filed with the SEC on February 1, 2007). ±

10.5 Western Alliance Bancorporation 2005 Stock Incentive Plan, as amended (incorporated by reference to Appendix A to Western Alliance s Proxy Statement on Schedule 14A filed with the SEC on March 17, 2009). ±

10.6 Form of BankWest Nevada Corporation Incentive Stock Option Plan Agreement (incorporated by reference to Exhibit 10.3 to Western Alliance s Registration Statement on Form S-1 filed with the SEC on April 28, 2005). ±

10.7 Form of Western Alliance Incentive Stock Option Plan Agreement (incorporated by reference to Exhibit 10.4 to Western Alliance s Registration Statement on Form S-1 filed with the SEC on April 28, 2005). ±

10.8 Form of Western Alliance 2002 Stock Option Plan Agreement (incorporated by reference to Exhibit 10.5 to Western Alliance s Registration Statement on Form S-1 filed with the SEC on April 28, 2005). ±

10.9

Form of Western Alliance 2002 Stock Option Plan Agreement (with double trigger acceleration clause) (incorporated by reference to Exhibit 10.6 to Western Alliance s Registration Statement on Form S-1 filed with the SEC on April 28, 2005). ±

10.10 Form of Indemnification Agreement (incorporated by reference to Exhibit 10.7 to Western Alliance s Registration Statement on Form S-1 filed with the SEC on April 28, 2005). ±

10.11 Form of Non-Competition Agreement (incorporated by reference to Exhibit 10.8 to Western Alliance s Registration Statement on Form S-1 filed with the SEC on April 28, 2005). ±

10.12 Real Estate Purchase Agreement between GRS Sahara Ave. Corp. and BankWest of Nevada (incorporated by reference to Exhibit 10.1 to Western Alliance s Form 8-K filed with the SEC on September 26, 2005).

10.13 Securities Purchase Agreement, dated September 29, 2008, by and among Western Alliance Bancorporation and

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certain other parties thereto (incorporated by reference to Exhibit 10.1 to Western Alliance s Form 8-K filed with the SEC on October 2, 2008).

10.14 Registration Rights Agreement, dated September 29, 2008, by and among Western Alliance Bancorporation and certain other parties thereto (incorporated by reference to Exhibit 10.2 to Western Alliance s Form 8-K filed with the SEC on October 2, 2008).

10.15 Letter Agreement, dated November 21, 2008, between Western Alliance Bancorporation and the United States Department of the Treasury, and the Securities Purchase Agreement Standard Terms attached thereto (incorporated by reference to Exhibit 10.1 to Western Alliance s Form 8-K filed with the SEC on November 25, 2008).

10.16 Western Alliance Bancorporation 2008 Annual Bonus Plan (incorporated by reference to Exhibit 10.1 to Western Alliance s Form 10-Q filed with the SEC on August 10, 2009). ±

10.17 Western Alliance Bancorporation 2009 Annual Bonus Plan (incorporated by reference to Exhibit 10.2 to Western Alliance s Form 10-Q filed with the SEC on August 10, 2009). ±

10.18 Western Alliance Bancorporation 2010 Annual Bonus Plan (incorporated by reference to Exhibit 10.18 to Western Alliance s Form 10-k filed with the SED on March 16, 2010). ±

10.19 Western Alliance Bancorporation 2011 Annual Bonus Plan. ±

10.20 Bank of Nevada 2008 Annual Bonus Plan (incorporated by reference to Exhibit 10.3 to Western Alliance s Form 10-Q filed with the SEC on August 10. 2009). ±

10.21 Bank of Nevada 2009 Annual Bonus Plan (incorporated by reference to Exhibit 10.4 to Western Alliance s Form 10-Q filed with the SEC on August 10. 2009). ±

10.22 Bank of Nevada 2010 Annual Bonus Plan (incorporated by reference to Exhibit 10.21 to Western Alliance s Form 10-K filed with the SEC on March 16, 2010). ±

10.23 Torrey Pines Bank 2008 Annual Bonus Plan (incorporated by reference to Exhibit 10.5 to Western Alliance s Form 10-Q filed with the SEC on August 10. 2009). ±

10.24 Torrey Pines Bank 2009 Annual Bonus Plan (incorporated by reference to Exhibit 10.6 to Western Alliance s Form 10-Q filed with the SEC on August 10. 2009). ±

10.25 Torrey Pines Bank 2010 Annual Bonus Plan (incorporated by reference to Exhibit 10.21 to Western Alliance s Form 10-K filed with the SEC on March 16, 2010). ±

10.26 First Independent Bank of Nevada 2009 Annual Bonus Plan (incorporated by reference to Exhibit 10.7 to Western Alliance s Form 10-Q filed with the SEC on August 10, 2009). ±

10.27 First Independent Bank of Nevada 2010 Annual Bonus Plan (incorporated by reference to Exhibit 10.21 to Western Alliance s Form 10-K filed with the SEC on March 16, 2010). ±

10.28

Alliance Bank of Arizona 2009 Annual Bonus Plan (incorporated by reference to Exhibit 10.8 to Western Alliance s Form 10-Q filed with the SEC on August 10, 2009). ±

10.29 Alliance Bank of Arizona 2010 Annual Bonus Plan (incorporated by reference to Exhibit 10.21 to Western Alliance s Form 10-K filed with the SEC on March 16, 2010). ±

10.30 Alta Alliance Bank 2009 Annual Bonus Plan (incorporated by reference to Exhibit 10.9 to Western Alliance s Form 10-Q filed with the SEC on August 10, 2009). ±

10.31 Alta Alliance Bank 2010 Annual Bonus Plan. ±(incorporated by reference to Exhibit 10.21 to Western Alliance s Form 10-K filed with the SEC on March 16, 2010)

10.32 Underwriting Agreement, dated May 14, 2009, by and between Western Alliance Bancorporation and Keefe, Bruyette & Woods, Inc. (incorporated by reference to Exhibit 1.1 to Western Alliance s Form 8-K/A filed with the SEC

on August 10, 2009).

10.33 Employment letter dated April 2, 2010, between Western Alliance Bancorporation and Kenneth Vecchione (incorporated by reference to Exhibit 10 to Western Alliance s Form 10-Q/A filed with the SEC on August 18, 2010).

10.34 Underwriting Agreement, dated August 19, 2010, by and between Western Alliance Bancorporation and Keefe, Bruyette & Woods, Inc. (incorporated by reference to Exhibit 1.1 to Western Alliance s Form 8-K filed with the SEC on August 24, 2010).

10.35 Underwriting Agreement, dated August 20, 2010, by and among Western Alliance Bancorporation and Keefe, Bruyette & Woods, Inc. and Goldman, Sachs & Co. (incorporated by reference to Exhibit 1.1 to Western Alliance s Form 8-K filed with the SEC on August 25, 2010).

21.1 List of Subsidiaries of Western Alliance Bancorporation.

23.1 Consent of McGladrey & Pullen, LLP.

24.1 Power of Attorney (see signature page).

31.1 CEO Certification Pursuant Rule 13a-14(a)/15d-a4(a).

31.2 CFO Certification Pursuant Rule 13a-14(a)/15d-14(a).

32 CEO and CFO Certification Pursuant 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes Oxley Act of 2002.

99.1 Certification of Chief Executive Officer Pursuant to Section 111(b)(4) of the Emergency Economic Stabilization Act of 2008.

99.2 Certification of Chief Financial Officer Pursuant to Section 111(b)(4) of the Emergency Economic Stabilization Act of 2008.

Stockholders may obtain copies of exhibits by writing to: Dale Gibbons, Western Alliance Bancorporation, One East Washington Street Suite 1400, Phoenix, AZ 85004.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WESTERN ALLIANCE BANCORPORATION

March 4, 2011 By: /s/Robert Sarver

Robert Sarver
Chairman of the Board and
Chief Executive Officer

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Robert Sarver and Dale Gibbons, and each of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully and to all intents and purposes as he or she might or could do in person hereby ratifying and confirming all that said attorneys-in-fact and agents, or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant in their listed capacities on March 4, 2011:

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Name	Title
/S/ Robert Sarver Robert Sarver	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
/S/ Dale Gibbons Dale Gibbons	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
/S/ Susan C. Thompson Susan C. Thompson	Senior Vice President and Controller (Principal Accounting Officer)
/S/ Kenneth A. Vecchione Kenneth A Vecchione	President and Chief Operating Officer
/S/ Bruce D. Beach Bruce D. Beach	Director
/S/ William S. Boyd William S. Boyd	Director
/S/ Steven J. Hilton Steven J. Hilton	Director
/S/ Marianne Boyd Johnson Marianne Boyd Johnson	Director
Cary Mack	Director
/S/ Todd Marshall Todd Marshall	Director
/S/ M. Nafees Nagy M. Nafees Nagy	Director
/S/ James Nave	Director

James Nave	
/S/ John Peter Sande III	Director
John Peter Sande III	
/S/ Donald D. Snyder	Director
Donald D. Snyder	
	Director
Sung Won Sohn	

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