

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

WESTAMERICA BANCORPORATION

Form 10-Q

July 31, 2007

Page 1

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2007

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-9383

WESTAMERICA BANCORPORATION  
(Exact Name of Registrant as Specified in its Charter)

CALIFORNIA  
(State or Other Jurisdiction of  
Incorporation or Organization)

94-2156203  
(I.R.S. Employer  
Identification No.)

1108 Fifth Avenue, San Rafael, California 94901  
(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, including Area Code (707) 863-6000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes

No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.  
(Check one):

Large Accelerated Filer  Accelerated Filer   
Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

Indicate the number of shares outstanding of each of the registrant's classes

## Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

of common stock, as of the latest practicable date:

Title of Class	Shares outstanding as of July 25, 2007
Common Stock, No Par Value	29,606,194

Page 2

### TABLE OF CONTENTS

Forward Looking Statements

#### PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

Notes to Unaudited Condensed Consolidated Financial Statements

Financial Summary

Item 2 - Management's Discussion and Analysis of Financial Condition  
and Results of Operations

Item 3 - Quantitative and Qualitative Disclosures about Market Risk

Item 4 - Controls and Procedures

#### PART II - OTHER INFORMATION

Item 1 - Legal Proceedings

Item 1A - Risk Factors

Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds

Item 3 - Defaults upon Senior Securities

Item 4 - Submission of Matters to a Vote of Security Holders

Item 5 - Other Information

Item 6 - Exhibits

Signature

Exhibit Index

Exhibit 31.1 - Certification of Chief Executive Officer pursuant to  
Securities Exchange Act Rule 13a-14(a)/15d-14(a)

Exhibit 31.2 - Certification of Chief Financial Officer pursuant to  
Securities Exchange Act Rule 13a-14(a)/15d-14(a)

Exhibit 32.1 - Certification of Chief Executive Officer Required by 18 U.S.C. Section 1350

## Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Exhibit 32.2 - Certification of Chief Financial Officer Required by 18 U.S.C. Section 1350

### FORWARD-LOOKING STATEMENTS

This report on Form 10-Q contains forward-looking statements about Westamerica Bancorporation for which it claims the protection of the safe harbor provisions contained in the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on Management's current knowledge and belief and include information concerning the Company's possible or assumed future financial condition and results of operations. A number of factors, some of which are beyond the Company's ability to predict or control, could cause future results to differ materially from those contemplated. These factors include but are not limited to (1) a slowdown in the national and California economies; (2) fluctuations in asset prices including, but not limited to, stocks, bonds, real estate, and commodities; (3) economic uncertainty created by terrorist threats and attacks on the United States, the actions taken in response, and the uncertain effect of these events on the national and regional economies; (4) changes in the interest rate environment; (5) changes in the regulatory environment; (6) significantly increasing competitive pressure in the banking industry; (7) operational risks including data processing system failures or fraud; (8) the effect of acquisitions and integration of acquired businesses; (9) volatility of rate sensitive deposits and investments; (10) asset/liability management risks and liquidity risks; (11) changes in liquidity levels in capital markets; and (12) changes in the securities markets. The reader is directed to the Company's annual report on Form 10-K for the year ended December 31, 2006, for further discussion of factors which could affect the Company's business and cause actual results to differ materially from those expressed in any forward-looking statement made in this report. The Company undertakes no obligation to update any forward-looking statements in this report.

Page 3

Part I. FINANCIAL INFORMATION  
Item 1. Financial Statements

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

	At June 30,	At	December 31,
	2007	2006*	2006
<b>Assets:</b>			
Cash and cash equivalents	\$164,065	\$188,670	\$184,442
Money market assets	325	534	567
Investment securities available for sale	582,959	620,294	615,525
Investment securities held to maturity, with market values of:			
\$1,085,464 at June 30, 2007	1,104,132		
\$1,210,561 at June 30, 2006		1,243,936	

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

\$1,155,736 at December 31, 2006			1,165,092
Loans, gross	2,521,738	2,580,612	2,531,734
Allowance for loan losses	(53,473)	(55,684)	(55,330)
Loans, net of allowance for loan losses	2,468,265	2,524,928	2,476,404
Other real estate owned	613	656	647
Premises and equipment, net	29,169	31,785	30,188
Identifiable intangibles	20,215	24,114	22,082
Goodwill	121,719	121,719	121,719
Interest receivable and other assets	155,607	149,006	152,669
Total Assets	\$4,647,069	\$4,905,642	\$4,769,335
Liabilities:			
Deposits:			
Noninterest bearing	\$1,266,941	\$1,330,280	\$1,341,019
Interest bearing:			
Transaction	554,036	606,633	588,668
Savings	809,791	951,819	865,268
Time	704,264	758,315	721,779
Total deposits	3,335,032	3,647,047	3,516,734
Short-term borrowed funds	809,261	746,517	731,977
Debt financing and notes payable	36,846	36,993	36,920
Liability for interest, taxes and other expenses	57,948	51,598	59,469
Total Liabilities	4,239,087	4,482,155	4,345,100
Shareholders' Equity:			
Authorized - 150,000 shares of common stock			
Issued and outstanding:			
29,732 at June 30, 2007	335,300		
31,201 at June 30, 2006		343,490	
30,547 at December 31, 2006			341,529
Deferred compensation	2,990	2,734	2,734
Accumulated other comprehensive (loss) income	(777)	(4,771)	1,850
Retained earnings	70,469	82,034	78,122
Total Shareholders' Equity	407,982	423,487	424,235
Total Liabilities and Shareholders' Equity	\$4,647,069	\$4,905,642	\$4,769,335

See accompanying notes to unaudited condensed consolidated financial statements.

\* Adjusted to adopt SAB No. 108

Page 4

WESTAMERICA BANCORPORATION  
CONSOLIDATED STATEMENTS OF INCOME  
(In thousands, except per share data)  
(unaudited)

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

	Three months ended June 30,		Six months e June 30
	2007	2006	2007
<hr/>			
Interest Income:			
Loans	\$40,727	\$41,160	\$80,894
Money market assets and funds sold	2	2	3
Investment securities available for sale			
Taxable	3,919	4,227	7,989
Tax-exempt	2,922	3,150	5,974
Investment securities held to maturity			
Taxable	5,987	7,407	12,255
Tax-exempt	5,784	5,931	11,599
	<hr/>		
Total interest income	59,341	61,877	118,714
<hr/>			
Interest Expense:			
Transaction deposits	528	427	1,051
Savings deposits	1,452	924	2,861
Time deposits	7,540	6,661	14,845
Short-term borrowed funds	8,718	7,695	17,014
Notes payable	578	578	1,156
	<hr/>		
Total interest expense	18,816	16,285	36,927
<hr/>			
Net Interest Income	40,525	45,592	81,787
<hr/>			
Provision for credit losses	75	150	150
<hr/>			
Net Interest Income After Provision For Credit Losses	40,450	45,442	81,637
<hr/>			
Noninterest Income:			
Service charges on deposit accounts	7,716	7,186	15,244
Merchant credit card	2,768	2,392	5,217
Debit card	960	876	1,856
Financial services commissions	363	363	673
Trust fees	304	287	641
Mortgage banking	33	49	62
Other	2,556	2,908	6,285
	<hr/>		
Total Noninterest Income	14,700	14,061	29,978
<hr/>			
Noninterest Expense:			
Salaries and related benefits	12,622	13,559	25,189
Occupancy	3,342	3,267	6,633
Data processing	1,543	1,531	3,066
Equipment	1,147	1,315	2,284
Amortization of intangibles	893	1,016	1,868
Courier service	857	909	1,705
Professional fees	409	833	904
Other	3,893	3,915	7,721
	<hr/>		
Total Noninterest Expense	24,706	26,345	49,370
<hr/>			
Income Before Income Taxes	30,444	33,158	62,245
Provision for income taxes	8,093	8,664	16,324
<hr/>			
Net Income	\$22,351	\$24,494	\$45,921

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Average Shares Outstanding	29,938	31,364	30,139
Diluted Average Shares Outstanding	30,365	31,932	30,593
Per Share Data:			
Basic Earnings	\$0.75	\$0.78	\$1.52
Diluted Earnings	0.74	0.77	1.50
Dividends Paid	0.34	0.32	0.68

See accompanying notes to unaudited condensed consolidated financial statements.

Page 5

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

	Shares	Common Stock	Deferred Compensation	Accumulated Compre- hensive Income	Re Ea
Balance, December 31, 2005	31,882	\$343,035	\$2,423	\$1,882	
Adjustment to initially apply SAB Statement No. 108, net of tax	--	--	--	--	
Balance at January 1, 2006	31,882	343,035	2,423	1,882	
Comprehensive income					
Net income for the period					
Other comprehensive income, net of tax:					
Net unrealized loss on securities available for sale				(6,653)	
Total comprehensive income					
Exercise of stock options	217	7,754			
Stock option tax benefits		617			
Restricted stock activity	20	727	311		
Stock based compensation		1,274			
Stock awarded to employees	2	126			
Purchase and retirement of stock	(920)	(10,043)			
Dividends					
Balance, June 30, 2006	31,201	\$343,490	\$2,734	(\$4,771)	
Balance, December 31, 2006	30,547	\$341,529	\$2,734	\$1,850	
Comprehensive income					
Net income for the period					
Other comprehensive income, net of tax:					
Net unrealized loss on securities					

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

available for sale				(2,646)
Post-retirement benefit transition obligation amortization				19
Total comprehensive income				
Exercise of stock options	74	2,716		
Stock option tax benefits		140		
Restricted stock activity	12	316	256	
Stock based compensation		939		
Stock awarded to employees	3	126		
Purchase and retirement of stock	(904)	(10,466)		
Dividends				
Balance, June 30, 2007	29,732	\$335,300	\$2,990	(\$777)

See accompanying notes to unaudited condensed consolidated financial statements.

Page 6

WESTAMERICA BANCORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)  
(unaudited)

	For the six m ended June
	2007
Operating Activities:	
Net income	\$45,921
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	4,892
Provision for credit losses	150
Net amortization of loan fees, net of cost	(741)
Decrease in interest income receivable	762
Increase in other assets	(6,667)
Decrease in income taxes payable	(953)
Increase in interest expense payable	27
Increase in other liabilities	3,120
Stock option compensation expense	939
Stock option tax benefits	(140)
Writedown of equipment	7
Originations of loans for resale	(271)
Proceeds from sale of loans originated for resale	212
Writedown on property acquired in satisfaction of debt	34
Net Cash Provided by Operating Activities	47,292
Investing Activities:	
Net repayments of loans	8,788
Purchases of investment securities available for sale	(26,178)
Proceeds from maturity of securities available for sale	55,189

## Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Purchases of investment securities held to maturity	0
Proceeds from maturity of securities held to maturity	60,960
Purchases of FRB/FHLB stock	(73)
Proceeds from sales of FRB/FHLB stock	73
Purchases of property, plant and equipment	(752)
<b>Net Cash Provided by Investing Activities</b>	<b>98,007</b>
<hr/>	
<b>Financing Activities:</b>	
Net decrease in deposits	(181,702)
Net increase (decrease) in short-term borrowings	77,284
Repayments of notes payable	(74)
Exercise of stock options	2,716
Stock option tax benefits	140
Purchase and retirement of stock	(43,478)
Dividends paid	(20,562)
<b>Net Cash Used in Financing Activities</b>	<b>(165,676)</b>
<hr/>	
<b>Net Decrease In Cash and Cash Equivalents</b>	<b>(20,377)</b>
Cash and Cash Equivalents at Beginning of Period	184,442
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$164,065</b>
<hr/>	
<b>Supplemental Disclosure of Noncash Activities:</b>	
Loans transferred to other real estate owned	\$0
Unrealized loss on securities available for sale, net	(2,646)
<b>Supplemental Disclosure of Cash Flow Activity:</b>	
Interest paid for the period	\$36,955
Income tax payments for the period	17,263

See accompanying notes to unaudited condensed consolidated financial statements.

Page 7

### NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### Note 1: Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. The results of operations reflect interim adjustments, all of which are of a normal recurring nature and which, in the opinion of Management, are necessary for a fair presentation of the results for the interim periods presented. The interim results for the six months ended June 30, 2007 and 2006 are not necessarily indicative of the results expected for the full year. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes as well as other information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

Note 2: Significant Accounting Policies.



## Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Certain accounting policies underlying the preparation of these financial statements require Management to make estimates and judgments. These estimates and judgments may affect reported amounts of assets and liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. The most significant of these involve the Allowance for Credit Losses, which is discussed in Note 1 to the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" (SAB 108). SAB 108 was issued in order to eliminate the diversity of practice surrounding how public companies quantify financial statement misstatements. Prior to SAB 108, the Company had historically focused on the impact of misstatements on the income statement, including the reversing effect of prior year misstatements. With a focus on the income statement, the Company's analysis could lead to the accumulation of misstatements in the balance sheet. In applying SAB 108, the Company must also consider any accumulated misstatements in the balance sheet. SAB 108 permitted companies to initially apply its provisions by recording the cumulative effect of misstatements as adjustments to the balance sheet as of the first day of the fiscal year, with an offsetting adjustment recorded to retained earnings, net of tax. In applying SAB 108, the Company made an adjustment to reduce other liabilities by \$3 million. The \$3 million overstatement of other liabilities accumulated over seventeen years, as the liability accrued for stock-based compensation exceeded the amount paid to employees. These misstatements had not previously been material to the income statements for any of those prior periods. Comparative amounts as of June 30, 2006 have been adjusted to reflect adoption of SAB 108 as follows (in thousands):

	As Originally Reported	SAB 108 Adjustment	As Adjusted
Liability for interest, taxes and other expenses	\$54,598	(\$3,000)	\$51,598
Interest receivable and other assets	150,250	(1,244)	149,006
Retained earnings	80,278	1,756	82,034

In September 2006, the FASB issued FAS 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. FAS 157 applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. FAS 157 is effective for the year beginning January 1, 2008. The Company is currently evaluating the effects of adopting FAS 157 on its consolidated financial statements.

In February 2007, the FASB issued FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities -- Including an Amendment of FASB Statement No. 115 ("FAS 159"). This standard permits entities to choose to measure many financial assets and liabilities and certain other items at fair value. An enterprise will report unrealized gains

## Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option may be applied on an instrument-by-instrument basis, with several exceptions, such as those investments accounted for by the equity method, and once elected, the option is irrevocable unless a new election date occurs. The fair value option can be applied only to entire instruments and not to portions thereof. FAS 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. The Company is currently evaluating the effects of adopting FAS 159 on its consolidated financial statements.

### Note 3: Goodwill and Other Intangible Assets

The Company has recorded goodwill and other identifiable intangibles associated with purchase business combinations. Goodwill is not amortized, but is periodically evaluated for impairment. The Company did not recognize impairment during the six months ended June 30, 2007 and June 30, 2006. Identifiable intangibles are amortized to their estimated residual values over their expected useful lives. Such lives and residual values are also periodically reassessed to determine if any amortization period adjustments are indicated. During the second quarter of 2007 and second quarter of 2006, no such adjustments were recorded.

Page 8

The changes in the carrying value of goodwill were (\$ in thousands):

December 31, 2005	\$121,907
Recognition of stock option tax benefits for the exercise of options converted upon merger	(193)
Fair value measurement adjustments during post-merger allocation period	5
	-----
June 30, 2006	\$121,719
	=====
December 31, 2006	\$121,719
	--
	-----
June 30, 2007	\$121,719
	=====

The gross carrying amount of intangible assets and accumulated amortization was (\$ in thousands):

June 30,	
2007	2006
Gross	Gross

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

	Carrying Amount	Accumulated Amortization	Carrying Amount	Accumulated Amortization
Core Deposit Intangibles	\$24,383	(\$10,339)	\$24,383	(\$8,120)
Merchant Draft Processing Intangible	10,300	(4,129)	10,300	(2,449)
Total Intangible Assets	\$34,683	(\$14,468)	\$34,683	(\$10,569)

As of June 30, 2007, the current year and estimated future amortization expense for intangible assets was (\$ in thousands):

	Core Deposit Intangibles	Merchant Draft Processing Intangible	Total
Six months ended June 30, 2007 (actual)	\$1,087	\$781	\$1,868
Estimate for year ended December 31,			
2007	2,153	1,500	3,653
2008	2,021	1,200	3,221
2009	1,859	962	2,821
2010	1,635	774	2,409
2011	1,386	624	2,010
2012	1,230	500	1,730

Note 4: Post Retirement Benefits

The Company uses an actuarial-based accrual method of accounting for post-retirement benefits. The Company offers a continuation of group insurance coverage to eligible employees electing early retirement until age 65. The Company pays a portion of these eligible early retirees' insurance premiums which are determined at their date of retirement. The Company reimburses a portion of Medicare Part B premiums for all eligible retirees and spouses over age 65.

The following table sets forth the net periodic post-retirement benefit costs (in thousands):

	For the six months ended June 30,	
	2007	2006
Service cost	\$8	\$94
Interest cost	132	106
Amortization of unrecognized		

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

transition obligation	30	30
	-----	-----
Net periodic cost	\$170	\$230
	=====	=====

The Company does not fund plan assets for any post-retirement benefit plans.

Page 9

Note 5: Accounting for Uncertainty in Income Taxes

The Company adopted the provisions of FASB Interpretation No.48 Accounting for Uncertainty in Income Taxes, on January 1, 2007. As a result of the implementation of Interpretation 48, the Company did not recognize any increase or decrease for unrecognized tax benefits. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

Balance at January 1, 2007	\$792
Additions for tax positions taken in the current period	0
Reductions for tax positions taken in the current period	0
Additions for tax positions taken in prior years	0
Reductions for tax positions taken in prior years	0
Decreases related to settlements with taxing authorities	0
Decreases as a result of a lapse in statute of limitations	0
	-----
Balance at June 30, 2007	\$792
	=====

The Company does not anticipate any significant increase or decrease in unrecognized tax benefits during 2007. Unrecognized tax benefits at January 1, 2007 and June 30, 2007 include accrued interest and penalties of \$137 thousand. If recognized, the entire amount of the unrecognized tax benefits would affect the effective tax rate.

The Company classifies interest and penalties as a component of the provision for income taxes. The tax years ended December 31, 2006, 2005, 2004 and 2003 remain subject to examination by the Internal Revenue Service. The tax years ended December 31, 2006, 2005, 2004, 2003, and 2002 remain subject to examination by the California Franchise Tax Board. Included in the balance at January 1, 2007 is \$1.6 million in tax positions for which the ultimate deductibility is uncertain. The deductibility of these tax positions will be determined through examination by the appropriate tax jurisdictions or the expiration of the tax statute of limitations.

Note 6: Earnings Per Common Share

The table below shows earnings per common share and diluted earnings per common share. Basic earnings per share are computed by dividing net income by the average number of shares outstanding during the period. Diluted earnings per share are computed by dividing net income by the average number of shares outstanding during the period plus the impact of common stock equivalents.

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

(In thousands, except per share data)	For the three months ended June 30,		For the six months ended June 30,
	2007	2006	2007
Weighted average number of common shares outstanding - basic	29,938	31,364	30,139
Add exercise of options reduced by the number of shares that could have been purchased with the proceeds of such exercise	427	568	454
Weighted average number of common shares outstanding - diluted	30,365	31,932	30,593
Net income	\$22,351	\$24,494	\$45,921
Basic earnings per share	\$0.75	\$0.78	\$1.52
Diluted earnings per share	\$0.74	\$0.77	\$1.50

For the three months ended June 30, 2007 and 2006, options to purchase 901 thousand and 727 shares of common stock, respectively, were outstanding but not included in the computation of diluted net income per share because the option exercise price exceeded the fair value of the stock such that their inclusion would have had an anti-dilutive effect. Similarly, for the six months ended June 30, 2007 and 2006, options to purchase 911 thousand and 732 shares of common stock, respectively, were outstanding but not included in the computation of diluted net income per share because they were anti-dilutive.

Page 10

WESTAMERICA BANCORPORATION  
Financial Summary  
(Dollars in thousands, except per share data)

	Three months ended June 30,		Six months en June 30,
	2007	2006	2007
Net Interest Income (FTE)***	\$46,059	\$51,503	\$92,973
Provision for Loan Losses	(75)	(150)	(150)
Noninterest Income	14,700	14,061	29,978
Noninterest Expense	(24,706)	(26,345)	(49,370)
Provision for Income Taxes (FTE)***	(13,627)	(14,575)	(27,510)
Net Income	\$22,351	\$24,494	\$45,921

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Average Shares Outstanding	29,938	31,364	30,139	
Diluted Average Shares Outstanding	30,365	31,932	30,593	
Shares Outstanding at Period End	29,732	31,201	29,732	
As Reported:				
Basic Earnings Per Share	\$0.75	\$0.78	\$1.52	
Diluted Earnings Per Share	\$0.74	\$0.77	\$1.50	
Return On Assets	1.92%	1.99%	1.97%	
Return On Equity	21.94%	23.12%	22.49%	
Net Interest Margin (FTE)***	4.36%	4.58%	4.38%	
Net Loan Losses to Average Loans	0.24%	0.04%	0.16%	
Efficiency Ratio**	40.7%	40.2%	40.2%	
Average Balances:				
Total Assets	\$4,668,627	\$4,948,443	\$4,691,007	\$5
Earning Assets	4,245,342	4,515,728	4,266,357	4
Total Loans, Gross	2,516,114	2,588,220	2,518,085	2
Total Deposits	3,377,413	3,652,030	3,402,548	3
Shareholders' Equity	408,564	424,999	411,791	
Balances at Period End:*				
Total Assets	\$4,647,069	\$4,905,642		
Earning Assets	4,209,154	4,445,376		
Total Loans, Gross	2,521,738	2,580,612		
Total Deposits	3,335,032	3,647,047		
Shareholders' Equity	407,982	423,487		
Financial Ratios at Period End:				
Allowance for Loan Losses to Loans	2.12%	2.16%		
Book Value Per Share	\$13.72	\$13.57		
Equity to Assets	8.78%	8.63%		
Total Capital to Risk Adjusted Assets	10.83%	10.93%		
Dividends Paid Per Share	\$0.34	\$0.32	\$0.68	
Dividend Payout Ratio	46%	42%	45%	

The above financial summary has been derived from the Company's unaudited consolidated financial statements. This information should be read in conjunction with those statements, notes and the other information included elsewhere herein. Percentages under the heading "As Reported" are annualized.

\* Balances at June 30, 2006 have been adjusted to adopt SAB No. 108.

\*\* The efficiency ratio is defined as noninterest expense divided by total revenue (net interest income on a tax-equivalent basis and noninterest income).

\*\*\* Yields on securities and certain loans have been adjusted upward to a "fully taxable equivalent" ("FTE") basis in order to reflect the effect of income which is exempt from federal income taxation at the current statutory tax rate.

## Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Westamerica Bancorporation and subsidiaries (the "Company") reported second quarter 2007 net income of \$22.4 million or \$0.74 diluted earnings per share. These results compare to net income of \$24.5 million or \$0.77 per share for the same period of 2006.

On a year-to-date basis, the Company reported net income for the six months ended June 30, 2007 of \$45.9 million or diluted earnings per share of \$1.50, compared with \$50.6 million or \$1.58 per share for the same period of 2006.

Following is a summary of the components of net income for the periods indicated (dollars in thousands except per share data):

	Three months ended June 30,		Six months en June 30,
	2007	2006	2007
Net interest income (FTE)	\$46,059	\$51,503	\$92,973
Provision for loan losses	(75)	(150)	(150)
Noninterest income	14,700	14,061	29,978
Noninterest expense	(24,706)	(26,345)	(49,370)
Provision for income taxes (FTE)	(13,627)	(14,575)	(27,510)
Net income	\$22,351	\$24,494	\$45,921
Average diluted shares	30,365	31,932	30,593
Diluted earnings per share	\$0.74	\$0.77	\$1.50
Average total assets	\$4,668,627	\$4,948,443	\$4,691,007
Net income (annualized) to average total assets	1.92%	1.99%	1.97%

Net income for the second quarter of 2007 was \$2.1 million or 8.8% less than the same quarter of 2006, attributable to lower net interest income (FTE), partially offset by higher noninterest income and decreases in provision for loan losses, noninterest expense and income tax provision (FTE). The decrease in net interest income (FTE) (down \$5.4 million or 10.6%) was the net result of lower average interest-earning assets, higher funding costs and lower loan fee income, partially offset by higher yields on earning assets. The provision for loan losses decreased \$75 thousand or 50.0% from a year ago, reflecting Management's assessment of credit risk for the loan portfolio. Noninterest income rose \$639 thousand or 4.5% mainly due to higher service charges on deposits and merchant credit card income. Noninterest expense decreased \$1.6 million or 6.2% mostly due to lower personnel costs. The provision for income taxes (FTE) decreased \$948 thousand or 6.5% primarily due to lower profitability.

Comparing the first six months of 2007 to the prior year, net income decreased \$4.7 million or 9.3%, due to lower net interest income (FTE), partially offset by higher noninterest income and declines in provision for loan losses, noninterest expense and lower tax provision (FTE). The lower net interest income (FTE) was mainly caused by a lower volume of average interest-earning assets and higher funding costs, partially offset by higher yields on earnings assets. The provision for loan losses decreased \$150 thousand or 50.0% to

## Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

reflect Management's view on credit risk. Noninterest income increased \$2.3 million or 8.2% largely due to higher service charges on deposits, merchant credit card income and company-owned life insurance proceeds. Noninterest expense declined \$2.5 million or 4.7% primarily due to lower personnel costs. The income tax provision (FTE) decreased \$2.9 million or 9.6% primarily due to lower profitability.

Page 12

### Net Interest Income

The Company's primary source of revenue is net interest income, or the difference between interest income earned on loans and investments and interest expense paid on interest-bearing deposits and borrowings. Following is a summary of the components of net interest income for the periods indicated (dollars in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	
Interest and fee income	\$59,341	\$61,877	\$118,714	
Interest expense	(18,816)	(16,285)	(36,927)	
FTE adjustment	5,534	5,911	11,186	
Net interest income (FTE)	\$46,059	\$51,503	\$92,973	
Average earning assets	\$4,245,342	\$4,515,728	\$4,266,357	\$4,266,357
Net interest margin (FTE)	4.36%	4.58%	4.38%	

During the periods presented, competition for deposits has intensified due to rising short-term interest rates, loan growth exceeding deposit growth in the banking industry, and other factors. Deposit competition within the banking industry has caused deposit costs to rise, while competitive rates on loans have not changed significantly. The resulting increase in funding costs has not been offset fully by rising yields on loans and investments due to relatively stable intermediate and long-term interest rates. Net interest income (FTE) decreased during the second quarter of 2007 by \$5.4 million or 10.6% from the same period in 2006 to \$46.1 million, mainly due to lower average earning assets (down \$270 million), higher rates paid on interest-bearing liabilities (up 49 basis points or "bp") and lower loan fee income (down \$185 thousand), partially offset by higher yields on earning assets (up 11 bp) and a lower volume of interest-bearing liabilities (down \$213 million).

Comparing the first six months of 2007 with the same period of 2006, net interest income (FTE) decreased \$12.5 million or 11.9%, primarily due to lower average earning assets (down \$295 million) and higher rates paid on interest-bearing liabilities (up 57 bp), partially offset by higher yields on earning assets (up 12 bp) and lower average balances of interest-bearing liabilities (down \$229 million).



## Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

### Interest and Fee Income

Interest and fee income (FTE) for the second quarter of 2007 decreased \$2.9 million or 4.3% from the same period in 2006. The decline was caused by lower average balances of earning assets and lower loan fees (down \$185 thousand), partially offset by higher yields on loans.

The average earning asset decrease of \$270 million for the second quarter of 2007 compared to the same period in 2006 was due to declines in most earning asset categories except for growth in indirect automobile loans (up \$40 million). The loan portfolio declined \$72 million mostly due to decreases in commercial loans (down \$49 million), commercial real estate loans (down \$30 million), residential real estate loans (down \$16 million) and personal credit lines (down \$12 million). Competitive loan pricing and loosened underwriting standards in the banking industry are limiting the opportunity to originate commercial loans which will remain profitable throughout the duration of the loans, in Management's opinion. Current interest rate spreads between loan origination yields and the rates paid on deposits and other funding sources are very narrow. Such interest rate spreads could be pressured in the near-term as funding costs rise while many loan yields are generally fixed in nature. As a result, the Company has not taken an aggressive posture relative to current loan and investment portfolio growth.

The Company has allowed the investment portfolio to decline due to the current interest rate environment, which has very narrow spreads between current interest rates on similar securities and on incremental funding sources. Average total investments decreased \$198 million for the second quarter of 2007 compared with the same period in 2006, due to paydowns, calls, and maturities of mortgage backed securities and collateralized mortgage obligations (down \$128 million), municipal securities (down \$34 million), corporate and other securities (down \$20 million) and U.S. government sponsored entity obligations (down \$16 million).

The average yield on the Company's earning assets increased from 6.01% in the second quarter of 2006 to 6.12% in the same period in 2007. The composite yield on loans rose 11 bp to 6.69% primarily due to increases in yields on construction loans (up 139 bp), taxable commercial loans (up 30 bp), consumer loans (up 31 bp) and residential real estate loans (up 13 bp), partially offset by an 11 bp decline in yields on commercial real estate loans.

The investment portfolio yield rose 6 bp to 5.31%, mainly attributable to higher yields on U.S. government sponsored entity obligations (up 18 bp) and corporate and other securities (up 17 bp), partially offset by lower yields on municipal securities (down 5 bp). As investment portfolio volumes have declined over the past year, municipal security volumes have declined at a slower rate than the remainder of the investment portfolio. As a result, municipal securities represented 44 percent of total average investment security volumes during the second quarter 2007, compared to 42 percent during the second quarter 2006. This migration in the composition of the investment portfolio has improved the overall yield of the investment portfolio since municipal security yields exceed the yield of the overall investment portfolio.

Comparing the first half of 2007 with the corresponding period a year ago, interest and fee income (FTE) was down \$6.4 million or 4.7%. The decrease largely resulted from lower average balances of earning assets and low loan fee income (down \$88 thousand), partially offset by higher yields on earning assets.

## Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Average earning assets decreased \$295 million or 6.5% for the first half of 2007 compared with the same period of 2006, due to a \$211 million decline in the investment portfolio and a \$84 million decrease in the loan portfolio. Lower average investment balances were attributable to mortgage backed securities and collateralized mortgage obligations (down \$131 million), municipal securities (down \$34 million), corporate and other securities (down \$23 million) and U.S. government sponsored obligations (down \$23 million).

The loan portfolio decline was primarily due to decreases in average balances of commercial loans (down \$58 million), commercial real estate loans (down \$26 million), personal credit lines (down \$12 million) and residential real estate loans (down \$10 million), partly offset by a \$31 million increase in the average balance of indirect automobile loans.

The average yield on earning assets for the first half of 2007 was 6.12% compared with 6.00% in the corresponding period of 2006. The loan portfolio yield for the first half of 2007 compared with the same period of 2006 was higher by 9 bp, primarily due to increases in yields on construction loans (up 138 bp), consumer loans (up 46 bp), taxable commercial loans (up 26 bp) and residential real estate loans (up 12 bp), partially offset by a 16 bp decline in the average yield on commercial real estate loans.

The investment portfolio yield rose by 9 bp. The increase resulted mostly from higher yields on U.S. government sponsored obligation (up 21 bp) and corporate and other securities (up 63 bp).

### Interest Expense

Interest expense in the second quarter of 2007 increased \$2.5 million or 15.5% compared with the same period in 2006. The increase was attributable to higher rates paid on the interest-bearing liabilities, partially offset by a lower average volume of those liabilities.

The average rate paid on interest-bearing liabilities increased from 2.07% in the second quarter of 2006 to 2.56% in the same quarter of 2007, reflecting trends in short-term interest rates. The average rate on federal funds purchased rose 32 bp while the average rate on line of credit and repurchase facilities increased 85 bp. Rates on deposits increased as well, including those on CDs over \$100 thousand (up 63 bp), on retail CDs (up 70 bp) and on preferred money market savings (up 219 bp).

Interest-bearing liabilities declined \$213 million or 6.8% for the second quarter of 2007 over the same period of 2006. Most categories of deposits declined including money market savings (down \$139 million), retail CDs (down \$31 million), regular savings (down \$46 million) and money market checking accounts (down \$46 million). The decline was partially offset by a \$45 million increase in preferred money market savings and a \$76 million increase in federal funds purchased.

Comparing the first half of 2007 to the corresponding period of 2006, interest expense rose \$6.1 million or 19.9%, due to higher rates paid on interest-bearing liabilities, partially offset by a decline in such liabilities.

Rates paid on liabilities averaged 2.51% during the first six months of 2007 compared to 1.94% in the first six months of 2006. The average rate paid on federal funds purchased rose 56 bp. Rates on deposits were also higher. CDs over \$100 thousand rose 84 bp and retail CDs increased by 79 bp. Preferred money market savings increased 219 bp.

Interest-bearing liabilities declined \$229 million or 7.2% over the first half of 2006 mainly due to decreases in money market savings (down \$145 million),

## Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

money market checking accounts (down \$56 million), regular savings (down \$46 million) and retail CDs (down \$33 million). The decline was partially offset by increases in preferred money market savings (up \$43 million) and short-term borrowed funds purchased (up \$20 million).

In all periods, the Company has attempted to increase the balances of more profitable, lower-cost transaction accounts in order to minimize the cost of funds.

Page 14

### Net Interest Margin (FTE)

The following summarizes the components of the Company's net interest margin for the periods indicated:

	Three months ended June 30,	Six months ended June 30,	
	2007	2006	2007
Yield on earning assets (FTE)	6.12%	6.01%	6.12%
Rate paid on interest-bearing liabilities	2.56%	2.07%	2.51%
Net interest spread (FTE)	3.56%	3.94%	3.61%
Impact of all other net noninterest bearing funds	0.80%	0.64%	0.77%
Net interest margin (FTE)	4.36%	4.58%	4.38%

During the second quarter of 2007, the net interest margin declined 22 bp compared to the same period in 2006. Rates paid on interest-bearing liabilities climbed faster than yields on earning assets, resulting in a 38 bp decline in net interest spread. The decline in the net interest spread was partially mitigated by the higher net interest margin contribution from noninterest bearing funding sources. While the average balance of these sources decreased \$50 million or 3.8%, their margin contribution increased 16 bp because of the higher market rates of interest at which they could be invested.

The net interest margin in the first half of 2007 declined by 27 bp when compared with the corresponding period of 2006. Earning asset yields increased 12 bp and the cost of interest-bearing liabilities rose by 57 bp, resulting in a 45 bp decrease in the interest spread. Noninterest bearing funding sources declined \$67 million or 5.0%, their margin contribution increased by 18 bp.

Page 15

Summary of Average Balances, Yields/Rates and Interest Differential

## Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

The following tables present, for the periods indicated, information regarding the Company's consolidated average assets, liabilities and shareholders' equity, the amount of interest income from average earning assets and the resulting yields, and the amount of interest expense paid on interest-bearing liabilities. Average loan balances include nonperforming loans. Interest income includes proceeds from loans on nonaccrual status only to the extent cash payments have been received and applied as interest income. Yields on securities and certain loans have been adjusted upward to reflect the effect of income which is exempt from federal income taxation at the current statutory tax rate (FTE) (dollars in thousands).

	For the three months ended June 30, 2007	
	Average Balance	Interest Income/ Expense
<b>Assets:</b>		
Money market assets and funds sold	\$459	\$2
Investment securities:		
Available for sale		
Taxable	366,904	3,919
Tax-exempt (1)	235,763	4,259
Held to maturity		
Taxable	555,685	5,987
Tax-exempt (1)	570,417	8,770
Loans:		
Commercial:		
Taxable	324,720	6,993
Tax-exempt (1)	228,344	3,662
Commercial real estate	883,942	15,804
Real estate construction	73,206	1,841
Real estate residential	496,012	5,881
Consumer	509,890	7,757
	2,516,114	41,938
Total loans (1)		
Total earning assets (1)	4,245,342	64,875
Other assets	423,285	
Total assets	\$4,668,627	
<b>Liabilities and shareholders' equity</b>		
Deposits:		
Noninterest bearing demand	\$1,267,032	\$--
Savings and interest-bearing transaction	1,401,854	1,980
Time less than \$100,000	212,189	1,751
Time \$100,000 or more	496,338	5,789
Total interest-bearing deposits	2,110,381	9,520
Short-term borrowed funds	778,841	8,718
Debt financing and notes payable	36,868	578
Total interest-bearing liabilities	2,926,090	18,816
Other liabilities	66,941	
Shareholders' equity	408,564	

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Total liabilities and shareholders' equity	----- \$4,668,627 =====
Net interest spread (1) (2)	
Net interest income and interest margin (1) (3)	\$46,059 =====

(1) Interest and rates calculated on a fully taxable equivalent basis using the current statutory federal tax rate.

(2) Net interest spread represents the average yield earned on earning assets minus the average rate paid on interest-bearing liabilities.

(3) Net interest margin is computed by calculating the difference between interest income and expense (annualized), divided by the average balance of earning assets.

Page 16

	For the three months ended June 30, 2006	
	Average Balance	Interest Income/ Expense
	-----	
Assets:		
Money market assets and funds sold	\$848	\$2
Investment securities:		
Available for sale		
Taxable	398,032	4,227
Tax-exempt (1)	252,617	4,605
Held to maturity		
Taxable	691,209	7,407
Tax-exempt (1)	584,802	9,057
Loans:		
Commercial:		
Taxable	355,136	7,386
Tax-exempt (1)	247,225	3,978
Commercial real estate	914,373	16,590
Real estate construction	77,151	1,674
Real estate residential	511,521	5,898
Consumer	482,814	6,964
	-----	
Total loans (1)	2,588,220	42,490
	-----	
Total earning assets (1)	4,515,728	67,788
Other assets	432,715	
	-----	
Total assets	\$4,948,443	
	=====	
Liabilities and shareholders' equity:		
Deposits:		
Noninterest bearing demand	\$1,316,927	\$--
Savings and interest-bearing transaction	1,588,822	1,351

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Time less than \$100,000	242,793	1,581
Time \$100,000 or more	503,488	5,080
	-----	-----
Total interest-bearing deposits	2,335,103	8,012
Short-term borrowed funds	766,936	7,695
Debt financing and notes payable	37,015	578
	-----	-----
Total interest-bearing liabilities	3,139,054	16,285
Other liabilities	67,463	
Shareholders' equity	424,999	
	-----	-----
Total liabilities and shareholders' equity	\$4,948,443	
	=====	
Net interest spread (1) (2)		
Net interest income and interest margin (1) (3)		\$51,503
		=====

(1) Interest and rates calculated on a fully taxable equivalent basis using the current statutory federal tax rate.

(2) Net interest spread represents the average yield earned on earning assets minus the average rate paid on interest-bearing liabilities.

(3) Net interest margin is computed by calculating the difference between interest income and expense (annualized), divided by the average balance of earning assets.

Page 17

	For the six months end June 30, 2007	
	Average Balance	Interest income/ expense
	-----	-----
Assets:		
Money market assets and funds sold	\$580	\$3
Investment securities:		
Available for sale		
Taxable	371,992	7,989
Tax-exempt (1)	235,740	8,704
Held to maturity		
Taxable	567,553	12,255
Tax-exempt (1)	572,407	17,613
Loans:		
Commercial:		
Taxable	319,249	13,597
Tax-exempt (1)	230,181	7,374
Commercial real estate	892,261	31,739
Real estate construction	71,970	3,606
Real estate residential	499,931	11,837
Consumer	504,493	15,183
	-----	-----
Total loans (1)	2,518,085	83,336
	-----	-----

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Total earning assets (1)	4,266,357	129,900
Other assets	424,650	
	-----	
Total assets	\$4,691,007	
	=====	
Liabilities and shareholders' equity:		
Deposits:		
Noninterest bearing demand	\$1,269,036	\$--
Savings and interest-bearing transaction	1,427,477	3,912
Time less than \$100,000	215,355	3,485
Time \$100,000 or more	490,680	11,360
	-----	
Total interest-bearing deposits	2,133,512	18,757
Short-term borrowed funds	773,116	17,014
Debt financing and notes payable	36,887	1,156
	-----	
Total interest-bearing liabilities	2,943,515	36,927
Other liabilities	66,665	
Shareholders' equity	411,791	
	-----	
Total liabilities and shareholders' equity	\$4,691,007	
	=====	
Net interest spread (1) (2)		
Net interest income and interest margin (1) (3)		\$92,973
		=====

(1) Interest and rates calculated on a fully taxable equivalent basis using the current statutory federal tax rate.

(2) Net interest spread represents the average yield earned on earning assets minus the average rate paid on interest-bearing liabilities.

(3) Net interest margin is computed by calculating the difference between interest income and expense (annualized), divided by the average balance of earning assets.

Page 18

	For the six months ended June 30, 2006	
	-----	
	Average	Interest
	Balance	Income/ Expense
	-----	-----
Assets:		
Money market assets and funds sold	\$835	\$2
Investment securities:		
Available for sale		
Taxable	404,534	8,631
Tax-exempt (1)	253,722	9,249
Held to maturity		
Taxable	713,479	15,236
Tax-exempt (1)	586,298	18,182
Loans:		

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Commercial:		
Taxable	357,142	14,757
Tax-exempt (1)	250,250	8,073
Commercial real estate	918,606	33,404
Real estate construction	77,750	3,361
Real estate residential	510,279	11,793
Consumer	488,058	13,585
	-----	-----
Total loans (1)	2,602,085	84,973
	-----	-----
Total earning assets (1)	4,560,953	136,273
Other assets	440,396	
	-----	-----
Total assets	\$5,001,349	
	=====	
Liabilities and shareholders' equity:		
Deposits:		
Noninterest bearing demand	\$1,336,214	\$--
Savings and interest-bearing transaction	1,631,228	2,677
Time less than \$100,000	248,398	3,041
Time \$100,000 or more	502,393	9,536
	-----	-----
Total interest-bearing deposits	2,382,019	15,254
Short-term borrowed funds	752,622	14,366
Debt financing and notes payable	37,569	1,176
	-----	-----
Total interest-bearing liabilities	3,172,210	30,796
Other liabilities	68,009	
Shareholders' equity	424,916	
	-----	-----
Total liabilities and shareholders' equity	\$5,001,349	
	=====	
Net interest spread (1) (2)		
Net interest income and interest margin (1) (3)		\$105,477
		=====

(1) Interest and rates calculated on a fully taxable equivalent basis using the current statutory federal tax rate.

(2) Net interest spread represents the average yield earned on earning assets minus the average rate paid on interest-bearing liabilities.

(3) Net interest margin is computed by calculating the difference between interest income and expense (annualized), divided by the average balance of earning assets.

Page 19

Summary of Changes in Interest Income and Expense due to Changes in Average Asset & Liability Balances and Yields Earned & Rates Paid

The following tables set forth a summary of the changes in interest income and interest expense due to changes in average asset and liability balances (volume) and changes in average interest rates for the periods indicated. Changes not solely attributable to volume or rates have been allocated in proportion to the respective volume and rate components (dollars in thousands).



Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

	Three months ended June 30, compared with three months ended June 30, 2006	
	Volume	Rate
Interest and fee income:		
Money market assets and funds sold	(\$1)	\$1
Investment securities:		
Available for sale		
Taxable	(321)	13
Tax-exempt (1)	(305)	(41)
Held to maturity		
Taxable	(1,440)	20
Tax-exempt (1)	(222)	(65)
Loans:		
Commercial:		
Taxable	(648)	255
Tax-exempt (1)	(303)	(13)
Commercial real estate	(547)	(239)
Real estate construction	(89)	256
Real estate residential	(181)	164
Consumer	401	392
Total loans (1)	(1,367)	815
Total (decrease) increase in interest and fee income (1)	(3,656)	743
Interest expense:		
Deposits:		
Savings and interest-bearing transaction	(175)	804
Time less than \$100,000	(216)	386
Time \$100,000 or more	(73)	782
Total interest-bearing deposits	(464)	1,972
Short-term borrowed funds	121	902
Debt financing and notes payable	(2)	2
Total (decrease) increase in interest expense	(345)	2,876
Decrease in Net Interest Income (1)	(\$3,311)	(\$2,133)

(1) Amounts calculated on a fully taxable equivalent basis using the current statutory federal tax rate.

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

	Volume	Rate
Interest and fee income:		
Money market assets and funds sold	(\$1)	\$2
Investment securities:		
Available for sale		
Taxable	(629)	(13)
Tax-exempt (1)	(661)	116
Held to maturity		
Taxable	(3,026)	45
Tax-exempt (1)	(428)	(141)
Loans:		
Commercial:		
Taxable	(1,603)	443
Tax-exempt (1)	(643)	(56)
Commercial real estate	(946)	(719)
Real estate construction	(263)	508
Real estate residential	(240)	284
Consumer	468	1,130
Total loans (1)	(3,227)	1,590
Total (decrease) increase in interest and fee income (1)	(7,972)	1,599
Interest expense:		
Deposits:		
Savings and interest-bearing transaction	(370)	1,605
Time less than \$100,000	(443)	887
Time \$100,000 or more	(227)	2,051
Total interest-bearing deposits	(1,040)	4,543
Short-term borrowed funds	400	2,248
Debt financing and notes payable	(21)	1
Total (decrease) increase in interest expense	(661)	6,792
Decrease in Net Interest Income (1)	(\$7,311)	(\$5,193)

(1) Amounts calculated on a fully taxable equivalent basis using the current statutory federal tax rate.

Page 21

Provision for Credit Losses

The level of the provision for credit losses during each of the periods presented reflects the Company's continued efforts to manage credit costs by enforcing underwriting and administration procedures and aggressively pursuing collection efforts with troubled debtors. The Company provided \$75 thousand for loan losses in the second quarter of 2007, compared with \$150 thousand in the second quarter of 2006. For the first six months of 2007 and 2006, \$150 thousand and \$300 thousand were provided in each respective period. The provision reflects management's assessment of credit risk in the loan

## Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

portfolio for each of the periods presented. For further information regarding net credit losses and the allowance for credit losses, see the "Classified Assets" section of this report.

### Noninterest Income

The following table summarizes the components of noninterest income for the periods indicated (dollars in thousands).

	Three months ended June 30,		Six months e June 30,
	2007	2006	2007
Service charges on deposit accounts	\$7,716	\$7,186	\$15,244
Merchant credit card fees	2,768	2,392	5,217
Debit card fees	960	876	1,856
ATM fees and interchange	714	717	1,391
Other service fees	489	488	989
Financial services commissions	363	363	673
Official check issuance income	314	373	625
Trust fees	304	287	641
Mortgage banking income	33	49	62
Life insurance gains	--	--	822
Other noninterest income	1,039	1,330	2,458
Total	\$14,700	\$14,061	\$29,978

Noninterest income for the second quarter of 2007 increased by \$639 thousand or 4.5% from the same period in 2006. Service charges on deposit accounts increased due to management efforts to increase deposit accounts and minimize service charge waivers. Such charge income rose \$530 thousand or 7.4% mainly due to a \$682 thousand increase in overdraft fees, partially offset by declines in deficit fees charged on analyzed accounts and retail and business checking account service fees. Merchant credit card fees increased \$376 thousand or 15.7%. Other noninterest income declined \$291 thousand or 21.9% primarily because the 2006 period included a \$239 thousand gain on sale of a vacated branch facility.

In the first half of 2007, noninterest income increased \$2.3 million or 8.2% compared with the same period of the previous year. Service charges on deposit accounts increased \$975 thousand or 6.8% mainly due to a \$1.4 million increase in overdraft fees, partially offset by declines in deficit fees charged on analyzed accounts (down \$203 thousand) and retail and business checking account service fees (down \$144 thousand). Merchant credit card fees increased \$439 thousand or 9.2%. Debit card fees increased \$152 thousand or 8.9% mainly due to increased usage. Other noninterest income increased \$694 thousand or 26.8% primarily due to \$822 thousand in life insurance proceeds and a \$169 thousand increase in interest recoveries on charged off loans, partially offset by the effect of a \$239 thousand gain on sale of a vacated branch facility in the first half of 2006.

## Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

### Noninterest Expense

The following table summarizes the components of noninterest expense for the periods indicated (dollars in thousands).

	Three months ended June 30,		Six months e June 30,
	2007	2006	2007
Salaries and related benefits	\$12,622	\$13,559	\$25,189
Occupancy	3,342	3,267	6,633
Data processing services	1,543	1,531	3,066
Equipment	1,147	1,315	2,284
Amortization of deposit intangibles	893	1,016	1,868
Courier service	857	909	1,705
Professional fees	409	833	904
Postage	396	397	806
Telephone	354	466	714
Stationery and supplies	269	272	583
Customer checks	228	263	476
Operational losses	171	255	331
Loan expense	171	236	338
Advertising/public relations	264	219	491
Correspondent Service Charges	220	207	445
Other noninterest expense	1,820	1,600	3,537
<b>Total</b>	<b>\$24,706</b>	<b>\$26,345</b>	<b>\$49,370</b>
Average full time equivalent staff	910	904	901
Noninterest expense to revenues (FTE)	40.66%	40.18%	40.15%

Noninterest expense decreased \$1.6 million or 6.2% in the second quarter of 2007 compared with the same period in 2006. Salaries and related benefits decreased \$937 thousand or 6.9%, mainly due to declines in stock based compensation (down \$379 thousand), incentive and bonuses (down \$326 thousand) and workers compensation (down \$221 thousand). Professional fees decreased \$424 thousand or 50.9% mostly due to a \$374 thousand decline in legal fees. Equipment expense declined \$168 thousand or 12.8% primarily due to lower repair, maintenance and depreciation expenses. Amortization of deposit intangibles decreased \$123 thousand or 12.1%. Telephone expense declined \$112 thousand or 24.0% largely due to lower rates contained in a new vendor contract. Other noninterest expense rose \$220 thousand or 13.8% mostly due to increases in expenses for travel, employee recruiting, public relations and internet banking, and amortization of low-income housing investments as tax benefits are realized.

In the first six months of 2007, noninterest expense declined \$2.5 million or 4.7% compared with the corresponding period of 2006. Salaries and related benefits declined \$1.6 million or 6.1% mostly due to a \$303 thousand decrease in regular salary as a result of fewer employees, partially offset by annual merit increases, and declines in stock based compensation (down \$558 thousand), incentives and bonuses (down \$360 thousand) and workers

## Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

compensation (down \$342 thousand). Professional fees decreased \$387 thousand or 29.9% mainly due to lower legal fees (down \$331 thousand). Equipment expense declined \$297 thousand or 11.5% primarily due to lower repair, maintenance and depreciation expenses. Amortization of deposit intangibles decreased \$188 thousand or 9.1%. Telephone expense declined \$184 thousand or 20.5% largely due to lower rates contained in a new vendor contract. Courier service expense decreased \$126 thousand or 6.9%. A \$112 thousand or 25.4% decline in operational losses was mainly attributable to a \$141 thousand decrease in sundry losses. Declines were partially offset by increases in other noninterest and occupancy expenses. Other noninterest expense rose \$363 thousand or 11.4% mostly due to increases in expenses for travel, employee recruiting, public relations and internet banking, and amortization of low-income housing investments as tax benefits are realized. Occupancy expense increased \$134 thousand or 2.1% primarily due to lower depreciation charges.

### Provision for Income Tax

During the second quarter of 2007, the Company recorded income tax expense (FTE) of \$13.6 million, \$948 thousand or 6.5% lower than the second quarter of 2006. The current quarter provision represents an effective tax rate of 37.9%, compared to 37.3% for the second quarter of 2006 largely because the second quarter of 2006 reflected tax reserve adjustments due to state tax refunds. On a year-to-date basis, the income tax provision (FTE) was \$27.5 million for 2007 compared with \$30.4 million for 2006. The effective tax rate of 37.5% for the first half of 2007 is lower than the 37.6% for the same period of 2006. The tax provision in 2007 reflected the tax-free nature of \$822 thousand in life insurance proceeds, higher dividend received deductions and lower non-deductible life insurance premiums. The tax provision in 2006 reflected tax reserve adjustments upon the conclusion of a state tax audit.

Page 23

### Classified Assets

The Company closely monitors the markets in which it conducts its lending operations and continues its strategy to control exposure to loans with high credit risk and to increase diversification of earning assets. Loan reviews are performed using grading standards and criteria similar to those employed by bank regulatory agencies. Loans receiving lesser grades fall under the "classified" category, which includes all nonperforming and potential problem loans, and receive an elevated level of attention to ensure collection. Other real estate owned is recorded at the lower of cost or market value less estimated disposition costs.

The following is a summary of classified loans and other real estate owned on the dates indicated (dollars in thousands):

	At June 30,	At
	-----2007	-----December 31, 2006
Classified loans	\$22,498	\$25,682
Other real estate owned	613	656
	-----	-----
Classified loans and other real estate owned	\$23,111	\$26,338
	=====	=====
Allowance for loan losses /		\$20,827

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

classified loans 238% 217% 274%

Classified loans include loans graded "substandard", "doubtful" and "loss" using regulatory guidelines. At June 30, 2007, \$22.0 million of loans or 97.6% of total classified loans are graded "substandard". Such substandard loans accounted for 0.87% of total gross loans at June 30, 2007. Classified loans at June 30, 2007, decreased \$3.2 million or 12.4% from a year ago. The decline resulted from 13 loan payoffs totaling \$6.1 million, four upgrades totaling \$4.8 million and three charge-offs, partially offset by 17 downgrades totaling \$10.0 million. A \$2.3 million or 11.5% increase in classified loans from December 31, 2006 was generally due to 10 downgrades totaling \$5.8 million, partially offset by three upgrades, four payoffs and two chargeoffs. Other real estate owned was \$613 thousand, \$647 thousand and \$656 thousand at June 30, 2007, December 31, 2006 and June 30, 2006, respectively. The reduction in OREO resulted from a reduction in the carrying value based on an updated appraisal, with an offsetting charge to earnings.

Nonperforming Loans and Other Real Estate Owned

Nonperforming loans include nonaccrual loans and loans 90 days past due as to principal or interest and still accruing. Loans are placed on nonaccrual status when they become 90 days or more delinquent, unless the loan is well secured and in the process of collection. Interest previously accrued on loans placed on nonaccrual status is charged against interest income. In addition, loans secured by real estate with temporarily impaired values and commercial loans to borrowers experiencing financial difficulties are placed on nonaccrual status even though the borrowers continue to repay the loans as scheduled. Such loans are classified as "performing nonaccrual" and are included in total nonperforming assets. When the ability to fully collect nonaccrual loan principal is in doubt, cash payments received are applied against the principal balance of the loan until such time as full collection of the remaining recorded balance is expected. Any subsequent interest received is recorded as interest income on a cash basis.

The following is a summary of nonperforming loans and other real estate owned on the dates indicated (dollars in thousands):

	At June 30,		At
	2007	2006	December 31, 2006
Performing nonaccrual loans	\$1,898	\$3,899	\$4,404
Nonperforming nonaccrual loans	3,140	1,613	61
Total nonaccrual loans	5,038	5,512	4,465
Loans 90 days past due and still accruing	179	114	65
Total nonperforming loans	5,217	5,626	4,530
Other real estate owned	613	656	647
Total	\$5,830	\$6,282	\$5,177

## Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

As a percentage of total loans

0.23%

0.24%

0.20%

Nonaccrual loans decreased \$474 thousand during the six months ended June 30, 2007. Eighteen loans comprised the \$5.0 million nonaccrual loans as of June 30, 2007. Six of those loans were on nonaccrual status throughout the first half 2007, while twelve of the loans were placed on nonaccrual status during the six months ended June 30, 2007. The Company actively pursues full collection of nonaccrual loans.

The Company had no "sub-prime" loans as of June 30, 2007, December 31, 2006 and June 30, 2006. Of the loans 90 days past due and still accruing at June 30, 2007, \$-0- and \$106 thousand were residential real estate loans and automobile loans, respectively.

Changes in other real estate owned are discussed above under "Classified Assets".

Page 24

The Company had no restructured loans as of June 30, 2007, June 30, 2006 and December 31, 2006.

The amount of gross interest income that would have been recorded for nonaccrual loans for the three and six month periods ended June 30, 2007, if all such loans had performed in accordance with their original terms, was \$109 thousand and \$219 thousand, respectively, compared to \$143 thousand and \$262 thousand, respectively, for the second quarter and the first half of 2006.

The amount of interest income that was recognized on nonaccrual loans from all cash payments, including those related to interest owed from prior years, made during the three and six months ended June 30, 2007, totaled \$150 thousand and \$269 thousand, respectively, compared to \$93 thousand and \$153 thousand, respectively, for the comparable periods in 2006. These cash payments represent annualized yields of 12.60% and 11.38%, respectively, for the second quarter and the first six months of 2007 compared to 5.78% and 5.01%, respectively, for the second quarter and the first half of 2006.

Total cash payments received during the second quarter of 2007 which were applied against the book balance of nonaccrual loans outstanding at June 30, 2007, totaled approximately \$-0- thousand compared with \$15 thousand for the same period in 2006. Cash payments received totaled \$4 thousand for the six months ended June 30, 2007 compared with \$47 thousand for the corresponding period in 2006.

Management believes the overall credit quality of the loan portfolio continues to be sound; however, nonperforming assets could fluctuate from period to period. The performance of any individual loan can be affected by external factors such as collateral values, the interest rate environment, economic conditions or factors particular to the borrower. No assurance can be given that additional increases in nonperforming loans and other real estate owned will not occur in the future.

### Allowance for Credit Losses

The Company's allowance for credit losses is maintained at a level considered adequate to provide for losses that can be estimated based upon specific and general conditions. These include conditions unique to individual borrowers, as well as overall credit loss experience, the amount of past due,

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

nonperforming loans and classified loans, recommendations of regulatory authorities, prevailing economic conditions and other factors. A portion of the allowance is specifically allocated to impaired and other identified loans whose full collectibility is uncertain. Such allocations are determined by Management based on loan-by-loan analyses. A second allocation is based in part on quantitative analyses of historical credit loss experience, in which criticized and classified credit balances identified through an internal credit review process are analyzed using a linear regression model to determine standard loss rates. The results of this analysis are applied to current criticized and classified loan balances to allocate the reserve to the respective segments of the loan portfolio. In addition, loans with similar characteristics not usually criticized using regulatory guidelines are analyzed based on the historical loss rates and delinquency trends, grouped by the number of days the payments on these loans are delinquent. Last, allocations are made to general loan categories based on commercial office vacancy rates, mortgage loan foreclosure trends, agriculture commodity prices, and levels of government funding. The remainder of the reserve is considered to be unallocated and is established at a level considered necessary based on relevant economic conditions and available data, including unemployment statistics, unidentified economic and business conditions, the quality of lending management and staff, credit quality trends, concentrations of credit, and changing underwriting standards due to external competitive factors. Management considers the \$57.2 million allowance for credit losses to be adequate as a reserve against losses as of June 30, 2007.

Page 25

The following table summarizes the provision for credit losses, net credit losses and allowance for credit losses for the periods indicated (dollars in thousands):

	Three months ended June 30,		Six months ended June 30,
	2007	2006	2007
Balance, beginning of period	\$58,582	\$59,456	\$59,023
Provision for credit losses	75	150	150
Loans charged off	(2,244)	(645)	(3,488)
Recoveries of previously charged off loans	753	411	1,481
Net credit losses	(1,491)	(234)	(2,007)
Balance, end of period	\$57,166	\$59,372	\$57,166
Components:			
Allowance for loan losses	\$53,473	\$55,684	\$53,473
Reserve for unfunded credit commitments	3,693	3,688	3,693
Allowance for credit losses	\$57,166	\$59,372	\$57,166
Allowance for loan losses / loans outstanding	2.12%	2.16%	



## Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Net credit losses rose in the three months ended June 30, 2007 due to higher charge-offs of commercial loans and overdrafts. Annualized net loan losses to average loans rose to 0.24% percent in the three months ended June 30, 2007, compared to 0.08 percent in the three months ended March 31, 2007. Management expects net credit losses to be lower in the third and fourth quarters of 2007 compared to the second quarter 2007. In Management's opinion, net loan losses to average loans experienced in the years 2006 and 2005 of 0.04 percent and 0.03 percent, respectively, benefited from low interest rates, real estate appreciation and other factors which are not as prevalent in 2007. Management continues to follow conservative credit underwriting policies and practices, and aggressively pursues collection of classified loans and recovery of recognized loan losses.

### Asset and Liability Management

The fundamental objective of the Company's management of assets and liabilities is to maximize its economic value while maintaining adequate liquidity and a conservative level of interest rate risk.

Interest rate risk is one of the most significant market risks affecting the Company. Interest rate risk results from many factors. Assets and liabilities may mature or reprice at different times. Assets and liabilities may reprice at the same time but by different amounts. Short-term and long-term market interest rates may change by different amounts. The remaining maturity of various assets or liabilities may shorten or lengthen as interest rates change. In addition, interest rates may have an indirect impact on loan demand, credit losses, and other sources of earnings such as account analysis fees on commercial deposit accounts, official check fees and correspondent bank service charges.

Rising short-term interest rates have slowed the growth of lower-cost deposit products in the banking industry, placing more reliance on higher-cost certificates of deposit and wholesale funding. Competitive loan pricing and loosened underwriting standards in the banking industry are limiting the opportunity to originate commercial loans which will remain profitable throughout the duration of the loans, in Management's opinion. Current interest rate spreads between loan origination yields and the rates paid on deposits and other funding sources are very narrow. Such interest rate spreads could be pressured in the near-term as funding costs rise while many loan yields are generally fixed in nature. As a result, the Company has not taken an aggressive posture relative to current loan growth. The interest rate spread is also very narrow in regard to bond investments. As such, Westamerica has not been making additional investments in bonds. The Company's exposure to interest rate risk has not changed significantly during the first six months of 2007. Loan volumes have declined in most categories, except indirect auto loans which have a shorter duration than the overall loan portfolio. The investment portfolio duration has also shortened as the portfolio balance declines due to paydowns, calls and maturities. These loan and securities trends have slightly reduced the duration of the Company's earning assets, while the duration of its funding has not changed by a meaningful amount. Management continues to monitor the interest rate environment as well as economic conditions and other conditions it deems relevant in managing the Company's exposure to interest rate risk.

In adjusting the Company's asset/liability position, Management attempts to manage interest rate risk while enhancing net interest margin and net interest income. At times, depending on expected increases or decreases in general interest rates, the relationship between long and short term interest rates, market conditions and competitive factors, Management may adjust the Company's interest rate risk position in order to manage its net interest margin and net

## Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

interest income. The Company's results of operations and net portfolio values remain subject to changes in interest rates and to fluctuations in the difference between long and short term interest rates.

Page 26

Management assesses interest rate risk by comparing the Company's most likely earnings plan with various earnings models using many interest rate scenarios that differ in the direction of interest rate changes, the degree of change over time, the speed of change and the projected shape of the yield curve. For example, assuming an increase of 100 bp in the federal funds rate and an increase of 60 bp in the 10 year Constant Maturity Treasury Bond yield during the same period, estimated earnings at risk would be approximately 2.8% of the Company's most likely net income plan for the twelve months ending June 30, 2008. Conversely, assuming a decrease of 100 bp in the federal funds rate and a decrease of 30 bp in the 10 year Constant Maturity Treasury Bond yield during the same period, earnings are estimated to improve 1.4% over the Company's most likely income plan for the twelve months ending June 30, 2008. Simulation estimates depend on, and will change with, the size and mix of the actual and projected balance sheet at the time of each simulation.

The Company does not currently engage in trading activities or use derivative instruments to control interest rate risk, even though such activities may be permitted with the approval of the Company's Board of Directors.

### Liquidity

The Company's principal source of asset liquidity is investment securities available for sale and principal payments from consumer loans. At June 30, 2007, investment securities available for sale totaled \$583 million, representing a decrease of \$33 million from December 31, 2006. At June 30, 2007, indirect auto loans totaled \$462 million, which were experiencing stable monthly principal payments of approximately \$19 million. At June 30, 2007, \$490 million in collateralized mortgage obligations ("CMOs") and mortgage backed securities ("MBSs") were held in the Company's investment portfolios. None of the CMOs or MBSs are backed by sub-prime mortgages. The CMOs and MBSs have been experiencing stable principal paydowns of approximately \$11 million per month during the last twelve months. In addition, during the three months ended June 30, 2007, the Company had customary lines for overnight borrowings from other financial institutions in excess of \$700 million and a \$35 million line of credit, under which average borrowings during the quarter were \$625 million and \$18 million, respectively. Additionally, as a member of the Federal Reserve System, the Company has access to borrowing from the Federal Reserve. The Company's short-term debt rating from Fitch Ratings is F1. Management expects the Company can access short-term debt financing if desired. The Company's long-term debt rating from Fitch Ratings is A with a stable outlook. Management is confident the Company could access additional long-term debt financing if desired.

The Company generates significant liquidity from its operating activities. The Company's profitability during the first six months of 2007 and 2006 contributed to substantial operating cash flows of \$47.3 million and \$56.3 million, respectively. In 2007, operating activities and retained earnings from prior years provided cash for \$20.6 million in shareholder dividends and \$43.5 million utilized to repurchase common stock. Similarly, in the first half of 2006, operating activities and retained earnings from prior years provided cash for \$47.8 million of Company stock repurchases, \$20.3 million in shareholder dividends and \$3.3 million for repayment of long term debt.

The Company's investing activities were also a net source of cash in the first six months of 2007. Proceeds from maturing investment securities of \$116.1

## Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

million were only partially reinvested, for a net increase in cash of \$90.0 million. This cash inflow and a \$77 million increase in short-term borrowings offset a \$182 million decrease in customers' deposits. The Company's investing activities were a net source of cash in the first six months of 2006. Proceeds from maturing investment securities of \$128.7 million were only partially reinvested, for a net increase in cash of \$123.7 million. Other investing activities included net loan repayments of \$90.7 million. This cash inflow offset a \$199.1 million decrease in customers' deposits and a \$28.7 million reduction in short-term borrowings.

The Company anticipates maintaining its cash levels in 2007 mainly through profitability and retained earnings. It is anticipated that loan demand will be moderate during the remainder of 2007, although such demand will be dictated by economic conditions. A highly competitive environment for deposits has developed as short-term interest rates have increased and banking industry loan growth had exceeded deposit growth. The Company aggressively solicits non-interest bearing demand deposits and money market checking deposits, which are the least sensitive to interest rates. However, higher costing products, including money market savings and certificates of deposit, have been less stable during the recent period of elevated short-term interest rates. The growth of deposit balances is subject to heightened competition and the success of the Company's sales efforts and delivery of superior customer service. Depending on economic conditions, interest rate levels, and a variety of other conditions, deposit growth may be used to fund loans, purchase investment securities or to reduce short-term borrowings. However, due to concerns regarding uncertainty in the general economic environment, competition, possible terrorist attacks and political uncertainty, loan demand and levels of customer deposits are not certain. Shareholder dividends and share repurchases are expected to continue subject to the Board's discretion and continuing evaluation of capital levels, earnings, asset quality and other factors.

Westamerica Bancorporation ("the Parent Company") is a separate entity from Westamerica Bank ("the Bank") and must provide for its own liquidity. In addition to its operating expenses, the Parent Company is responsible for interest and principal on outstanding debt and the payment of dividends declared for shareholders. Substantially all of the Parent Company's revenues are obtained from service fees and dividends received from the Bank and, to a lesser extent, other subsidiaries. Payment of such dividends to the Parent Company by the Bank is limited under regulations for Federal Reserve member banks and California law. The amount that can be paid in any calendar year, without prior approval from federal and state regulatory agencies, cannot exceed the net profits (as defined) for that year plus the net profits of the preceding two calendar years less dividends paid. The Company believes that such restrictions will not have an impact on the Parent Company's ability to meet its ongoing cash obligations.

Page 27

### Capital Resources

The current and projected capital position of the Company and the impact of capital plans and long-term strategies are reviewed regularly by Management. The Company repurchases shares of its common stock in the open market pursuant to stock repurchase plans approved by the Board with the intention of lessening the dilutive impact of issuing new shares under stock option plans, returning excess capital to shareholders, and other ongoing requirements. These programs have been implemented to optimize the Company's use of equity capital and enhance shareholder value. Pursuant to these programs, the Company collectively repurchased 904 thousand shares and 920 thousand shares in the

## Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

first half of 2007 and 2006, respectively.

The Company's capital position represents the level of capital available to support continued operations and expansion. The Company's primary capital resource is shareholders' equity, which was \$408.0 million at June 30, 2007, a decrease of \$15.5 million or 3.7% from a year ago, and a decrease of \$16.3 million or 3.8% from December 31, 2006. These decreases are reflective of the effect of common stock repurchases, dividends paid to shareholders and a change in accumulated other comprehensive income (loss), offset by the generation of earnings and stock issuance in connection with employee stock option exercises. The Company's ratio of equity to total assets rose to 8.78% at June 30, 2007, from 8.63% a year ago but declined from 8.90% at December 31, 2006.

The following summarizes the ratios of capital to risk-adjusted assets for the periods indicated:

	At June 30,		At December 31,	Minimum Regulatory Requirement
	2007	2006	2006	
Tier I Capital	9.51%	9.61%	9.77%	4.00%
Total Capital	10.83%	10.93%	11.09%	8.00%
Leverage ratio	6.34%	6.26%	6.42%	4.00%

The risk-based capital ratios declined at June 30, 2007, compared with June 30 and December 31 of 2006, due to a decrease in equity capital, offset in part by a decline in risk-weighted assets.

Capital ratios are reviewed by Management on a regular basis to ensure that capital exceeds the prescribed regulatory minimums and is adequate to meet the Company's anticipated future needs. All ratios as shown in the table above are in excess of the regulatory definition of "well capitalized".

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company does not currently engage in trading activities or use derivative instruments to control interest rate risk, even though such activities may be permitted with the approval of the Company's Board of Directors.

Interest rate risk as discussed above is the most significant market risk affecting the Company. Other types of market risk, such as foreign currency exchange risk, equity price risk and commodity price risk, are not significant in the normal course of the Company's business activities.

### Item 4. Controls and Procedures

The Company's principal executive officer and principal financial officer have evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended, as of June 30, 2007. Based upon their evaluation, the principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective.

## Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

The evaluation did not identify any change in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2007 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Page 28

### PART II. OTHER INFORMATION

#### Item 1. Legal Proceedings

Due to the nature of the banking business, the Bank is at times party to various legal actions; all such actions are of a routine nature and arise in the normal course of business of the Subsidiary Bank.

#### Item 1A. Risk Factors

There are no material changes to the risk factors disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

#### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) None

(b) None

(c) Issuer Purchases of Equity Securities

The table below sets forth the information with respect to purchases made by or on behalf of Westamerica Bancorporation or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of common stock during the quarter ended June 30, 2007 (in thousands, except per share data).

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs*	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 1 through April 30	123	\$47.36	123	909
May 1 through May 31	227	46.92	227	682
June 1 through				

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

June 30	106	45.75	106	576
-----				
Total	456	\$46.77	456	576
=====				

\* Includes 5 thousand, 5 thousand and 3 thousand shares purchased in April, May and June, respectively, by the Company in private transactions with the independent administrator of the Company's Tax Deferred Savings/Retirement Plan (ESOP). The Company includes the shares purchased in such transactions within the total number of shares authorized for purchase pursuant to the currently existing publicly announced program.

The Company repurchases shares of its common stock in the open market to optimize the Company's use of equity capital and enhance shareholder value and with the intention of lessening the dilutive impact of issuing new shares to meet stock performance, option plans, and other ongoing requirements.

Shares were repurchased during the second quarter of 2007 pursuant to a program approved by the Board of Directors on August 24, 2006 authorizing the purchase of up to 2,000,000 shares of the Company's common stock from time to time prior to September 1, 2007.

Item 3. Defaults upon Senior Securities

None

Page 29

Item 4. Submission of Matters to a Vote of Security Holders

Proxies for the Annual Meeting of shareholders held on April 26, 2007, were solicited pursuant Regulation 14A of the Securities Exchange Act of 1934. The Report of Inspector of election indicates that 25,767,381 shares of the Common Stock of the Company, out of 30,321,619 shares outstanding on the February 26, 2007 record date, were present, in person or by proxy, at the meeting. There were no "broker non-votes" because the election of directors is considered "routine" under applicable exchange rules and therefore, on this matter, brokers were able to vote shares for which no direction was provided by the beneficial owner. The following matter was submitted to a vote of the shareholders:

1. - Election of directors:

	For	Withheld
	-----	-----
Etta Allen	25,425,415	341,966
Louis E. Bartolini	25,321,932	445,449
E. Joseph Bowler	23,410,140	2,357,241
Arthur C. Latno, Jr.	23,517,235	2,250,146
Patrick D. Lynch	25,415,292	352,089
Catherine C. MacMillan	25,350,072	417,309
Ronald A. Nelson	23,497,385	2,269,996
David L. Payne	25,460,104	307,277

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Edward B. Sylvester                      25,443,643                      323,738

Shareholders were to cast their vote for or to withhold their vote.

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

- (a) The exhibit list required by this item is incorporated by reference to the Exhibit Index filed with this report.

Page 30

SIGNATURES

-----

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

WESTAMERICA BANCORPORATION  
(Registrant)

July 31, 2007

-----

Date

/s/ John "Robert" Thorson

-----

John "Robert" Thorson  
Senior Vice President  
and Chief Financial Officer  
(Chief Financial and Accounting Officer)

Page 31

Exhibit Index

Exhibit 31.1: Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a)

Exhibit 31.2: Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a)

Exhibit 32.1: Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 32.2: Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002