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WESTAMERICA BANCORPORATION

Form 10-Q

May 05, 2006

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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 March 31, 2006

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

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of common stock, as of the latest practicable date:

| Title of Class | Shares outstanding as of May 1, 2006 |
|-------------------------------|--------------------------------------|
| Common Stock, No Par Value | 31,428,986 |

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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, 2005, 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.

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

| | At March 31, -----2006 | 2005* ----- | At -----December 31, 2005* ----- |
|---|---------------------------|----------------|---|
| Assets: | | | |
| Cash and cash equivalents | \$187,947 | \$168,341 | \$209,273 |
| Money market assets | 534 | 540 | 534 |
| Investment securities available for sale | 642,996 | 719,097 | 662,388 |
| Investment securities held to maturity, with market values of: | | | |
| \$1,282,823 at March 31, 2006 | 1,307,848 | | |
| \$1,318,206 at March 31, 2005 | | 1,331,870 | |
| \$1,323,782 at December 31, 2005 | | | 1,337,216 |
| Loans, gross | 2,639,968 | 2,708,052 | 2,672,221 |

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| | | | |
|--|-------------|-------------|-------------|
| Allowance for loan losses | (55,768) | (59,859) | (55,849) |
| <hr/> | | | |
| Loans, net of allowance for loan losses | 2,584,200 | 2,648,193 | 2,616,372 |
| Other real estate owned | 0 | 0 | 0 |
| Premises and equipment, net | 32,535 | 35,586 | 33,221 |
| Identifiable intangibles | 25,130 | 29,389 | 26,170 |
| Goodwill | 121,719 | 127,503 | 121,907 |
| Interest receivable and other assets | 152,644 | 139,941 | 150,478 |
| <hr/> | | | |
| Total Assets | \$5,055,553 | \$5,200,460 | \$5,157,559 |
| <hr/> | | | |
| Liabilities: | | | |
| Deposits: | | | |
| Noninterest bearing | \$1,355,426 | \$1,371,819 | \$1,419,313 |
| Interest bearing: | | | |
| Transaction | 641,264 | 626,693 | 658,667 |
| Savings | 1,004,964 | 1,166,858 | 1,022,645 |
| Time | 737,532 | 773,473 | 745,476 |
| <hr/> | | | |
| Total deposits | 3,739,186 | 3,938,843 | 3,846,101 |
| Short-term borrowed funds | 784,639 | 710,530 | 775,173 |
| Debt financing and notes payable | 37,030 | 40,391 | 40,281 |
| Liability for interest, taxes and other expenses | 65,326 | 64,772 | 60,940 |
| <hr/> | | | |
| Total Liabilities | 4,626,181 | 4,754,536 | 4,722,495 |
| <hr/> | | | |
| Shareholders' Equity: | | | |
| Authorized - 150,000 shares of common stock | | | |
| Issued and outstanding: | | | |
| 31,544 at March 31, 2006 | 342,972 | | |
| 32,939 at March 31, 2005 | | 345,388 | |
| 31,882 at December 31, 2005 | | | 343,035 |
| Deferred compensation | 1,969 | 2,146 | 2,423 |
| Accumulated other comprehensive income: | | | |
| Unrealized (loss) gain on securities available for sale, net | (830) | 3,511 | 1,882 |
| Retained earnings | 85,261 | 94,879 | 87,724 |
| <hr/> | | | |
| Total Shareholders' Equity | 429,372 | 445,924 | 435,064 |
| <hr/> | | | |
| Total Liabilities and Shareholders' Equity | \$5,055,553 | \$5,200,460 | \$5,157,559 |
| <hr/> | | | |

See accompanying notes to unaudited condensed consolidated financial statements.

* Adjusted to adopt Financial Accounting Standard 123 (revised 2004), "Share-Based Payment." See

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

Three months ended
March 31,

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| | 2006 | 2005* |
|--|----------|----------|
| Interest Income: | | |
| Loans | \$41,106 | \$34,933 |
| Money market assets and funds sold | 1 | 0 |
| Investment securities available for sale | | |
| Taxable | 4,403 | 6,117 |
| Tax-exempt | 3,171 | 3,352 |
| Investment securities held to maturity | | |
| Taxable | 7,829 | 7,290 |
| Tax-exempt | 5,957 | 5,611 |
| | ----- | ----- |
| Total interest income | 62,467 | 57,303 |
| | ----- | ----- |
| Interest Expense: | | |
| Transaction deposits | 428 | 263 |
| Savings deposits | 898 | 863 |
| Time deposits | 5,916 | 3,231 |
| Short-term borrowed funds | 6,672 | 3,570 |
| Debt financing and notes payable | 598 | 430 |
| | ----- | ----- |
| Total interest expense | 14,512 | 8,357 |
| | ----- | ----- |
| Net Interest Income | 47,955 | 48,946 |
| | ----- | ----- |
| Provision for credit losses | 150 | 300 |
| | ----- | ----- |
| Net Interest Income After Provision For Credit Losses | 47,805 | 48,646 |
| | ----- | ----- |
| Noninterest Income: | | |
| Service charges on deposit accounts | 7,083 | 6,927 |
| Merchant credit card | 2,385 | 1,298 |
| Trust fees | 282 | 273 |
| Financial services commissions | 298 | 279 |
| Mortgage banking | 50 | 100 |
| Securities losses | 0 | (4,903) |
| Other | 3,541 | 3,221 |
| | ----- | ----- |
| Total Noninterest Income | 13,639 | 7,195 |
| | ----- | ----- |
| Noninterest Expense: | | |
| Salaries and related benefits | 13,258 | 13,883 |
| Occupancy | 3,232 | 2,952 |
| Data processing | 1,534 | 1,548 |
| Furniture and equipment | 1,266 | 1,230 |
| Courier service | 922 | 926 |
| Amortization of intangibles | 1,040 | 405 |
| Professional fees | 457 | 720 |
| Other | 3,774 | 4,199 |
| | ----- | ----- |
| Total Noninterest Expense | 25,483 | 25,863 |
| | ----- | ----- |
| Income Before Income Taxes | 35,961 | 29,978 |
| Provision for income taxes | 9,844 | 7,668 |
| | ----- | ----- |
| Net Income | \$26,117 | \$22,310 |
| | ===== | ===== |
| Other comprehensive Income, net of tax: | | |
| Unrealized loss on securities available for sale | (2,712) | (8,971) |

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| | | |
|--|----------|----------|
| Securities losses/impairment losses included in net income | 0 | 2,844 |
| | ----- | ----- |
| Comprehensive Income | \$23,405 | \$16,183 |
| | ===== | ===== |
| Average Shares Outstanding | 31,688 | 32,022 |
| Diluted Average Shares Outstanding | 32,276 | 32,680 |
| Per Share Data: | | |
| Basic Earnings | \$0.82 | \$0.70 |
| Diluted Earnings | 0.81 | 0.68 |
| Dividends Paid | 0.32 | 0.30 |

See accompanying notes to unaudited condensed consolidated financial statements.

* Adjusted to adopt Financial Accounting Standard 123 (revised 2004),

"Share-Based Payment." See Note 4.

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

| | Shares | Common Stock | Deferred Compensation | Accumulated Compre- hensive Income | R E |
|---|--------|-----------------|--------------------------|---|--------|
| | ----- | ----- | ----- | ----- | ----- |
| Balance, December 31, 2004* | 31,640 | \$255,205 | \$2,146 | \$9,638 | |
| Net income for the period | | | | | |
| Stock issued and stock options assumed for acquisition of Redwood Empire Bancorp | 1,639 | 90,892 | | | |
| Stock issued for stock options | 32 | 1,149 | | | |
| Stock option tax benefits | | 128 | | | |
| Restricted stock activity | 0 | 0 | 0 | | |
| Stock based compensation | | 723 | | | |
| Purchase and retirement of stock | (372) | (2,709) | | | |
| Dividends | | | | | |
| Unrealized loss on securities available for sale, net | | | | (6,127) | |
| | ----- | ----- | ----- | ----- | |
| Balance, March 31, 2005* | 32,939 | \$345,388 | \$2,146 | \$3,511 | |
| | ===== | ===== | ===== | ===== | |
| Balance, December 31, 2005* | 31,882 | \$343,035 | \$2,423 | \$1,882 | |
| Net income for the period | | | | | |
| Stock issued for stock options | 90 | 3,213 | | | |
| Stock option tax benefits | | 280 | | | |
| Restricted stock activity | 1 | 454 | (454) | | |
| Stock based compensation | | 635 | | | |
| Purchase and retirement of stock | (429) | (4,645) | | | |
| Dividends | | | | | |
| Unrealized loss on securities available for sale, net | | | | (2,712) | |

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| | | | | |
|-------------------------|--------|-----------|---------|---------|
| Balance, March 31, 2006 | 31,544 | \$342,972 | \$1,969 | (\$830) |
|-------------------------|--------|-----------|---------|---------|

See accompanying notes to unaudited condensed consolidated financial statements.

* Adjusted to adopt Financial Accounting Standard 123 (revised 2004),

"Share-Based Payment." See Note 4.

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

| | For the three ended March 2006 |
|--|--------------------------------------|
| Operating Activities: | |
| Net income | \$26,117 |
| Adjustments to reconcile net income to net cash provided by operating activities: | |
| Depreciation of fixed assets | 983 |
| Amortization of intangibles and other assets | 1,610 |
| Credit loss provision | 150 |
| Amortization of deferral of loan fees, net of cost | (25) |
| Decrease (increase) in interest income receivable | 13 |
| (Increase) decrease in other assets | (4,015) |
| Increase in income taxes payable | 8,786 |
| Increase in interest expense payable | 542 |
| Decrease in other liabilities | (1,003) |
| Stock option compensation expense | 635 |
| Excess tax benefits from stock-based compensation | (281) |
| Loss (gain) on sales of investment securities | 0 |
| Writedown of property and equipment | 1 |
| Originations of loans for resale | (50) |
| Proceeds from sale of loans originated for resale | 50 |
| Net Cash Provided by Operating Activities | 33,513 |
| Investing Activities: | |
| Net cash used in mergers and acquisitions | 0 |
| Net repayments of loans | 32,046 |
| Purchases of investment securities available for sale | (2,984) |
| Proceeds from maturity of securities available for sale | 17,594 |
| Proceeds from sale of securities available for sale | 0 |
| Purchases of investment securities held to maturity | 0 |
| Proceeds from maturity of securities held to maturity | 29,369 |
| Purchases of FRB/FHLB securities | (33) |
| Proceeds from sale of FRB/FHLB stock | 80 |
| Purchases of property, plant and equipment | (298) |
| Net Cash Provided by Investing Activities | 75,774 |

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| | |
|---|-----------|
| ----- | |
| Financing Activities: | |
| Net decrease in deposits | (106,915) |
| Net increases (decrease) in short-term borrowings | 9,466 |
| Repayments of notes payable and debt financing | (3,251) |
| Exercise of stock options | 3,031 |
| Tax benefit from stock-based compensation | 281 |
| Repurchases/retirement of stock | (23,029) |
| Dividends paid | (10,196) |
| ----- | |
| Net Cash Used in Financing Activities | (130,613) |
| ----- | |
| Net (Decrease) Increase In Cash and Cash Equivalents | (21,326) |
| ----- | |
| Cash and Cash Equivalents at Beginning of Period | 209,273 |
| ----- | |
| Cash and Cash Equivalents at End of Period | \$187,947 |
| ===== | |
| Supplemental Disclosure of Noncash Activities: | |
| Loans transferred to other real estate owned | \$0 |
| Supplemental Disclosure of Cash Flow Activity: | |
| Unrealized loss on securities available for sale, net | (\$2,712) |
| Interest paid for the period | 15,054 |
| The acquisition of Redwood Empire Bancorp involved the following: | |
| Cash issued | -- |
| Common stock issued | -- |
| Liabilities assumed | -- |
| Fair value of assets acquired, other than cash and cash equivalents | -- |
| Core deposit intangible | -- |
| Customer based intangible - Redwoods Merchant Services | -- |
| Goodwill | -- |
| Net cash and cash equivalent received | -- |

See accompanying notes to unaudited condensed consolidated financial statements.

* Adjusted to adopt Financial Accounting Standard 123 (revised 2004),

"Share-Based Payment." See Note 4.

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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 three months ended March 31, 2006 and 2005 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, 2005.

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Note 2: Significant Accounting Policies.

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 Loan 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, 2005.

Effective March 1, 2005, the Company acquired Redwood Empire Bancorp ("REBC"), parent company of National Bank of the Redwoods. The REBC acquisition was accounted for using the "purchase method" of accounting for business combinations which requires valuing assets and liabilities which do not have quoted market prices. In determining fair values for assets and liabilities without quoted market prices for the REBC acquisition, management engaged an independent consultant to determine such fair values. Critical assumptions used in the valuation included prevailing market interest rates on similar financial products, future cash flows, maturity structures and durations of similar financial products, the cost of processing deposit products, the interest rate structure for similar funding sources over the estimated duration of acquired deposits, the duration of customer relationships, and other critical assumptions.

On March 17, 2006, the Financial Accounting Standards Board (FASB) issued FASB Statement of Financial Accounting Standards No. 156 (SFAS 156), "Accounting for Servicing of Financial Assets an amendment of FASB No. 140". This Statement amends FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (SFAS 140). The new Standard addresses the recognition and measurement of separately recognized servicing assets and liabilities and provides an approach to simplify efforts to obtain hedge-like (offset) accounting. The standard requires that a separately recognized servicing asset or servicing liability be initially measured at fair value, if practicable, and permits an entity with a separately recognized servicing asset or servicing liability to choose either the amortization method or the fair value method for subsequent measurement. The Company currently has approximately \$100 thousand in mortgage servicing rights which are currently amortized over the period of estimated mortgage income. This method is consistent with the SFAS 140 requirements. The Company does not currently hedge its mortgage servicing rights as the risks to earnings from fluctuating values is not significant. SFAS 156 is effective for fiscal years beginning after September 15, 2006. The Company will be adopting this new Standard beginning January 1, 2007.

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 three months ended March 31, 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 first quarter of 2006, no such adjustments were recorded.

In connection with the acquisition of Redwood Empire Bancorp ("REBC") in the first quarter of 2005, the Company recorded goodwill and identifiable intangibles of \$109 million and \$27 million, respectively, in accordance with the purchase method of accounting. The following tables summarize the Company's goodwill and identifiable intangible assets, as of January 1 and March 31 for 2006 and 2005 (dollars in thousands). In the first quarter of 2006 goodwill

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relating to the REBC acquisition was reduced by \$193 related to stock options issued in connection with the acquisition and increased \$5 related to accrued expenses.

| | At January 1, 2006 | Additions | Reductions | At March 31, 2006 |
|--------------------------------------|--------------------------|-----------|------------|-------------------------|
| Goodwill | \$125,879 | \$5 | (\$193) | \$125,691 |
| Accumulated Amortization | (3,972) | 0 | 0 | (3,972) |
| Net | \$121,907 | \$5 | (\$193) | \$121,719 |
| Core Deposit Intangibles | \$24,383 | \$0 | \$0 | \$24,383 |
| Accumulated Amortization | (6,972) | 0 | (582) | (7,554) |
| Merchant Draft Processing Intangible | 10,300 | 0 | 0 | 10,300 |
| Accumulated Amortization | (1,541) | 0 | (458) | (1,999) |
| Net | \$26,170 | \$0 | (\$1,040) | \$25,130 |

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| | At January 1, 2005 | Additions | Reductions | At March 31, 2005 |
|--------------------------------------|--------------------------|-----------|------------|-------------------------|
| Goodwill | \$22,968 | \$108,507 | \$0 | \$131,475 |
| Accumulated Amortization | (3,972) | 0 | 0 | (3,972) |
| Net | \$18,996 | \$108,507 | \$0 | \$127,503 |
| Core Deposit Intangibles | \$7,783 | \$16,600 | \$0 | \$24,383 |
| Accumulated Amortization | (4,889) | 0 | (278) | (5,167) |
| Merchant Draft Processing Intangible | 0 | 10,300 | 0 | 10,300 |
| Accumulated Amortization | 0 | 0 | (127) | (127) |
| Net | \$2,894 | \$26,900 | (\$405) | \$29,389 |

At March 31, 2006, the estimated aggregate amortization of core deposit intangibles, in thousands of dollars, for the remainder of 2006 and annually through 2011 is \$1,697, \$2,153, \$2,021, \$1,859, \$1,636, and \$1,386, respectively. The weighted average amortization period for core deposit intangibles is 12.35 years.

At March 31, 2006, the estimated aggregate amortization of merchant draft

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processing intangible, in thousands of dollars, for the remainder of 2006 and annually through 2011 is \$1,350, \$1,500, \$1,200, \$962, \$774, and \$624, respectively. The weighted average amortization period for merchant draft processing intangibles is 11.92 years.

Note 4: Stock Options

The Company grants stock options and restricted performance shares to employees in exchange for employee services, pursuant to the shareholder-approved 1995 Stock Option Plan, which was amended and restated in 2003. Stock options are granted with an exercise price equal to the fair market value of the related common stock and generally become exercisable in equal annual installments over a three-year period with each installment vesting on the anniversary date of the grant. Each stock option has a maximum ten-year term. A restricted performance share grant becomes vested after three years of being awarded, provided the Company has attained its performance goals for such three-year period.

Effective January 1, 2006, the Company adopted SFAS No. 123(R), "Share-Based Payment" on a modified retrospective basis. SFAS No. 123(R) requires the Company to begin using the fair value method to account for stock based awards granted to employees in exchange for their services. Prior to the adoption of SFAS No. 123(R), the Company accounted for stock option plans using the intrinsic value method, as permitted by SFAS No. 123, "Accounting for Stock-Based Compensation." Under the prior intrinsic value method, compensation expense was recorded for stock options only if the price of the underlying stock on the date of grant exceeded the exercise price of the option. The Company's historical stock option grants were awarded with exercise prices equal to the prevailing price of the underlying stock on the dates of grant; therefore, no compensation expense was recorded using the intrinsic value method. The Company has recognized compensation expense for historical restricted performance share grants over the relevant attribution period.

The scope of FAS 123(R) includes a wide range of stock-based compensation arrangements including stock options, restricted stock plans, performance-based awards, stock appreciation rights, and employee stock purchase plans. FAS 123(R) requires that the Company measure the cost of employee services received in exchange for an award of equity instruments based on the fair value of the award on the grant date. That cost must be recognized in the income statement over the vesting period of the award. In applying the "modified retrospective" method to implement SFAS No. 123 (R), the Company adjusted the financial statements for prior periods to give effect to the fair-value-based method of accounting for awards that were granted, modified or settled in the fiscal years beginning after December 15, 1994 on a basis consistent with the pro forma disclosures required by Statement 123. Accordingly, compensation costs and the related tax effects are recognized in those financial statements as though awards for those periods before the effective date of statement 123(R) had been accounted for under Statement 123. In addition, the opening balances of common stock, deferred taxes and retained earnings for the earliest year presented are adjusted to reflect the cumulative effect of the modified retrospective application on earlier periods.

The following table summarizes information about stock options granted under the Plans as of March 31, 2006. The intrinsic value is calculated as the difference between the market value as of March 31, 2006 and the exercise price of the shares. The market value as of March 31, 2006 was \$51.92 as reported by the Nasdaq National:

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| Range of Exercise Price | Options Outstanding | | | | Options E | | |
|-------------------------|-----------------------|--|---|---------------------------------|-----------------------|--|-------------------------|
| | Shares (in thousands) | Aggregate Intrinsic Value (in thousands) | Weighted Average Remaining Contractual Life (years) | Weighted Average Exercise Price | Shares (in thousands) | Aggregate Intrinsic Value (in thousands) | Wei Ave Rem Con Lif (ye |
| \$10 - 15 | 11 | \$427 | 2.1 | \$13.09 | 11 | \$427 | |
| 15 - 19 | 1 | 26 | 2.2 | 16.76 | 1 | 26 | |
| 19 - 20 | 111 | 3,633 | 0.8 | 19.25 | 111 | 3,633 | |
| 20 - 25 | 417 | 11,644 | 3.8 | 24.00 | 417 | 11,644 | |
| 32 - 33 | 244 | 4,661 | 1.8 | 32.79 | 244 | 4,661 | |
| 33 - 35 | 279 | 4,852 | 2.8 | 34.56 | 279 | 4,852 | |
| 35 - 40 | 695 | 8,960 | 5.4 | 39.02 | 695 | 8,960 | |
| 40 - 45 | 474 | 5,296 | 6.8 | 40.75 | 474 | 5,296 | |
| 45 - 50 | 462 | 1,068 | 7.8 | 49.61 | 309 | 713 | |
| 50 - 55 | 732 | 0 | 9.2 | 52.55 | 159 | 0 | |
| \$10 - 55 | 3,426 | \$40,567 | 5.9 | 40.21 | 2,700 | \$40,212 | |

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The Company applies the Roll-Geske option pricing model (Modified Roll) to determine grant date fair value of stock option grants. This model modifies the Black-Scholes Model to take into account dividends and American options. The following weighted average assumptions were used in the option pricing to value stock options granted in the periods indicated:

| | For the Three months ended March 31, | |
|---------------------------|--|--------|
| | 2006 | 2005 |
| Expected volatility*1 | 16% | 15% |
| Expected life in years*2 | 4.0 | 7.0 |
| Risk-free interest rate*3 | 4.41% | 3.91% |
| Expected dividend yield | 2.63% | 2.47% |
| Fair value per award | \$6.54 | \$6.61 |

*1 Measured using daily price changes of Company's stock over respective expected term of the option and the implied volatility derived from the market prices of the Company's stock and traded options.

*2 the expected life is the number of years that the company estimates that the options will be outstanding prior to exercise

*3 the risk-free rate for periods within the contractual term of the option is based on the US Treasury yield curve in effect at the time of the grant

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Employee stock option grants are being expensed by the Company over the grants' three year vesting period. The company issues new shares upon the exercise of options. The Company estimates it will issue approximately 400 thousand shares during 2006 related to stock-based compensation programs. The number of shares authorized to be issued for options is 2.2 million.

The impact of adopting SFAS 123(R) for the quarters ended March 31, 2006 and 2005 and at March 31, 2006 and 2005 is summarized in the following tables (in thousands, except per share data):

| | For the three months ended March 31 | | |
|--|-------------------------------------|-------------------------|------------------------------|
| | 2006 | | 2005 |
| | Intrinsic Value Method | Fair Value Method | Intrinsic Value Method |
| Income before income taxes | \$36,596 | \$35,961 | \$30,701 |
| Net income | 26,488 | 26,117 | 22,733 |
| Net earnings per share - basic | \$0.84 | \$0.82 | \$0.71 |
| Net earnings per share - diluted share | 0.82 | 0.81 | 0.70 |
| Cash flow from operations | \$33,794 | \$33,513 | \$32,553 |
| Cash flow from financing activities | (130,894) | (130,613) | (158,957) |

A summary of option activity is presented below:

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term |
|--------------------------------|-----------|--|---|
| Outstanding at January 1, 2006 | 3,269,086 | \$39.13 | 5.5 years |
| Granted | 258,000 | 52.56 | 9.8 |
| Exercised | (87,975) | 34.46 | 4.4 |
| Forfeited or expired | (12,746) | 52.03 | 8.4 |
| Outstanding at March 31, 2006 | 3,426,365 | 40.21 | 5.9 |
| Exercisable at March 31, 2006 | 2,700,154 | 37.06 | 5.1 years |

A summary of the Company's nonvested shares is presented below.

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| | Shares | Weighted Average Grant Date Fair Value |
|------------------------------|-----------|--|
| Nonvested at January 1, 2006 | 967,947 | \$6.57 |
| Granted | 258,000 | 6.54 |
| Vested | (486,990) | 6.43 |
| Forfeited | (12,746) | 6.63 |
| Nonvested at March 31, 2006 | 726,211 | 6.65 |

The weighted average estimated grant date fair value, as defined by SFAS 123(R), for options granted under the Company's stock option plan during the three months ended March 31, 2006 and 2005 was \$6.54 and \$6.61 per share, respectively. The total remaining unrecognized compensation cost related to nonvested awards as of March 31, 2006 is \$4.4 million and the weighted average period over which the cost is expected to be recognized is 1.9 years.

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A summary of the status of the Company's restricted performance shares as of March 31, 2006 and 2005 and changes during the quarters ended on those dates, follows:

| | 2006 | 2005 |
|---------------------------|---------|---------|
| Outstanding at January 1, | 43,582 | 57,750 |
| Granted | 15,084 | 20,740 |
| Exercised | (1,414) | 0 |
| Forfeited | 0 | (1,100) |
| Outstanding at March 31, | 57,252 | 77,390 |

As of March 31, 2006 and 2005, the restricted performance shares had a weighted-average contractual life of 1.38 and 1.54 years, respectively. The compensation cost that was charged against income for the Company's restricted performance shares granted was \$177 thousand and \$300 thousand for the first quarter of 2006 and 2005, respectively. There were no stock appreciation rights or incentive stock options granted in the first quarter of 2006 and 2005.

Note 5: 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 employees electing early retirement until age 65. The Company pays a portion of these early retirees' insurance premium which are determined at their

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date of retirement. The Company reimburses a portion of Medicare Part B premiums for all retirees and spouses over 65.

In accordance with SFAS No.132 "Employers' Disclosures about Pensions and Other Post-Retirement Benefits", the Company provides the following interim disclosure related to its post-retirement benefit plan.

The following table sets forth the net periodic post retirement benefit costs for the three months ended March 31 (in thousands).

| | For the three months ended March 31, | |
|---|---|-------|
| | 2006 | 2005 |
| Service cost | \$47 | \$70 |
| Interest cost | 53 | 53 |
| Amortization of unrecognized transition obligation | 15 | 15 |
| Net periodic cost | \$115 | \$138 |

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

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

| | Three months end | |
|--------------------------------------|------------------|----------|
| | March 31, | Dec |
| | 2006 | 2005* |
| Net Interest Income (FTE) *** | \$53,974 | \$55,019 |
| Provision for Credit Losses | 150 | 300 |
| Noninterest Income: | | |
| Securities losses | 0 | (4,903) |
| Deposit service charges and other | 13,639 | 12,098 |
| Total noninterest income | 13,639 | 7,195 |
| Noninterest Expense | 25,483 | 25,863 |
| Provision for income taxes (FTE) *** | 15,863 | 13,741 |
| Net Income | \$26,117 | \$22,310 |
| Average Shares Outstanding | 31,688 | 32,022 |
| Diluted Average Shares Outstanding | 32,276 | 32,680 |

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| | | |
|---|-------------|-------------|
| Shares Outstanding at Period End | 31,544 | 32,939 |
| As Reported: | | |
| Basic Earnings Per Share | \$0.82 | \$0.70 |
| Diluted Earnings Per Share | 0.81 | 0.68 |
| Return On Assets | 2.10% | 1.86% |
| Return On Equity | 24.93% | 24.22% |
| Net Interest Margin (FTE)*** | 4.73% | 4.90% |
| Net Loan (Recoveries) Losses to Average Loans | 0.04% | (0.03%) |
| Efficiency Ratio** | 37.7% | 41.6% |
| Average Balances: | | |
| Total Assets | \$5,054,256 | \$4,864,633 |
| Earning Assets | 4,606,178 | 4,518,930 |
| Total Gross Loans | 2,615,949 | 2,374,710 |
| Total Deposits | 3,784,436 | 3,716,554 |
| Shareholders' Equity | 424,832 | 373,627 |
| Balances at Period End: | | |
| Total Assets | \$5,055,553 | \$5,200,460 |
| Earning Assets | 4,591,346 | 4,759,558 |
| Total Gross Loans | 2,639,968 | 2,708,052 |
| Total Deposits | 3,739,186 | 3,938,843 |
| Shareholders' Equity | 429,372 | 445,924 |
| Financial Ratios at Period End: | | |
| Allowance for Loan Losses to Loans | 2.11% | 2.21% |
| Book Value Per Share | \$13.61 | \$13.54 |
| Equity to Assets | 8.49% | 8.57% |
| Total Capital to Risk Adjusted Assets | 10.73% | 10.28% |
| Dividends Paid Per Share | \$0.32 | \$0.30 |
| Dividend Payout Ratio | 40% | 44% |

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.

* Adjusted to adopt SFAS 123(R)

** 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.

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

Westamerica Bancorporation and subsidiaries (the "Company") reported first quarter 2006 net income of \$26.1 million or \$.81 diluted earnings per share. These results compare to net income of \$22.3 million or \$.68 diluted earnings per share and \$27.1 million or \$.83 diluted earnings per share, respectively, for the first and fourth quarters of 2005. First quarter 2005 results include one month of operating results of Redwood Empire Bancorp ("REBC"), parent

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company of National Bank of the Redwoods, which was acquired on March 1, 2005. First quarter 2005 also included a loss on sale of available-for-sale investment securities totaling \$2.8 million, net of tax, or \$0.09 per diluted share outstanding.

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

| | Three months end | |
|---|------------------|-------------|
| | March 31, | Dec |
| | 2006 | 2005* |
| Net interest income (FTE) | \$53,974 | \$55,019 |
| Provision for credit losses | (150) | (300) |
| Noninterest income: | | |
| Securities losses | 0 | (4,903) |
| Deposit service charges and other | 13,639 | 12,098 |
| Total noninterest income | 13,639 | 7,195 |
| Noninterest expense | (25,483) | (25,863) |
| Provision for income taxes (FTE) | (15,863) | (13,741) |
| Net income | \$26,117 | \$22,310 |
| Average diluted shares | 32,276 | 32,680 |
| Diluted earnings per share | \$0.81 | \$0.68 |
| Average total assets | \$5,054,256 | \$4,864,633 |
| Net income (annualized) to average total assets | 2.10% | 1.86% |

* Adjusted to adopt SFAS 123(R)

Net income for the first quarter of 2006 was \$3.8 million or 17.1% more than the same quarter of 2005, primarily due to higher noninterest income, partially offset by lower net interest income (FTE) and a higher income tax provision. The decrease in net interest income (FTE) (down \$1.0 million or 1.9%) was attributable to higher funding costs and lower loan fee income, partially offset by an increase due to growth of average interest-earning assets and higher yields earned on those assets. The loan loss provision decreased \$150 thousand or 50.0% from a year ago, reflecting Management's assessment of credit risk for the loan portfolio. Noninterest income increased \$6.4 million or 89.6% as 2005 included \$4.9 million in securities losses and merchant credit card income rose due to the REBC acquisition. Noninterest expense decreased \$380 thousand or 1.5%. The provision for income taxes (FTE) rose \$2.1 million or 15.4% largely due to increased pretax income.

Comparing the first three months of 2006 to the prior quarter, net income declined \$1.0 million or 3.7%, due to lower net interest income (FTE) and lower noninterest income, offset by decreases in noninterest expense and the provision for income taxes. The lower net interest income (FTE) was caused by higher funding costs, the effect of two less accrual days and lower average earning assets, partially offset by higher yields on those assets. Noninterest income decreased \$788 thousand or 5.5% due to seasonal declines in merchant card

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volumes, fewer processing days for deposit services, and \$357 thousand life insurance proceeds in the fourth quarter of 2005. Noninterest expense declined \$1.5 million or 5.6% primarily due to lower personnel costs. The income tax provision (FTE) decreased mainly due to lower earnings.

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Net Interest Income

Following is a summary of the components of net interest income for the periods indicated (dollars in thousands):

| | Three months ended | | |
|---------------------------|--------------------|-------------|--------------|
| | March 31, | | December 31, |
| | 2006 | 2005 | 2005 |
| Interest and fee income | \$62,467 | \$57,303 | \$62,234 |
| Interest expense | (14,512) | (8,357) | (12,519) |
| FTE adjustment | 6,019 | 6,073 | 6,115 |
| Net interest income (FTE) | \$53,974 | \$55,019 | \$55,830 |
| Average earning assets | \$4,606,178 | \$4,518,930 | \$4,639,319 |
| Net interest margin (FTE) | 4.73% | 4.90% | 4.80% |

Approximately eighty percent of the Company's revenue is derived from net interest income, or the difference between interest income earned on loans and investments and interest expense paid on interest-bearing deposits and borrowings. Net interest income (FTE) during the first quarter of 2006 decreased \$1.0 million or 1.9% from the same period in 2005 to \$54.0 million, mainly due to rates on interest-bearing liabilities (up 75 basis points ("bp")) moving faster than yields on earning assets (up 37 bp), higher average interest-bearing liabilities (up \$73 million), and lower loan fee income (down \$168 thousand), partially offset by growth of average earning assets (up \$87 million.)

Comparing the first quarter of 2006 with the previous quarter, net interest income (FTE) declined \$1.9 million or 3.3%, primarily due to higher average interest-bearing liabilities (up \$37 million), higher rates on those liabilities (up 26 bp), the effect of two less accrual days and lower average earning assets (down \$33 million), partially offset by higher yields on those assets (up 13 bp).

Interest and Fee Income

Interest and fee income (FTE) for the first quarter of 2006 rose \$5.1 million or 8.1% from the same period in 2005. The increase was caused by higher average earning assets (up \$87.2 million) and higher yields on those assets (up 37 bp), partially offset by lower loan fee income (down \$168 thousand.)

The average yield on the Company's earning assets, excluding loan fee income,

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increased from 5.60% in the first quarter of 2005 to 5.97% in the same period in 2006 (up 37 bp). The composite yield on loans, excluding loan fees, rose 41 bp to 6.52% due to increases in the average yields on commercial loans (up 101 bp), residential real estate loans (up 27 bp), direct consumer loans (up 136 bp), construction loans (up 153 bp) and indirect consumer loans (up 15 bp.)

The investment portfolio yield increased 18 bp to 5.23%, caused by increases in the average yield on mortgage backed securities and collateralized mortgage obligations (up 23 bp) and U.S. government sponsored entity obligations (up 23 bp). Partially offsetting these increases were decreases in the average yield on municipal securities (down 13 bp) and corporate and other securities (down 40 bp.)

Average earning asset expansion of \$87 million for the first quarter of 2006 compared to the same period in 2005 was attributable to growth in the loan portfolio, partially offset by a decrease in the investment portfolio. The Company's acquisition of REBC on March 1, 2005 was the principal cause of the loan portfolio growth. Average commercial real estate loans rose by \$113 million. Average residential real estate loans were up \$87 million and average balances of construction loans and commercial loans were also up \$33 million and \$16 million, respectively. A \$3 million decline in the average balance of direct consumer loans partially offset these increases.

Average investments declined \$154 million for the first quarter of 2006 compared to the same period in 2005 primarily due to decreased average balances of U.S. government sponsored entity obligations (down \$138 million), mortgage backed securities and collateralized mortgage obligations (down \$28 million) and other securities (down \$9 million), partially offset by a \$22 million increase in average municipal securities. The Company sold approximately \$170 million in "available-for-sale" U.S. government sponsored entity obligations in the first quarter of 2005 to manage interest rate risk associated with the REBC acquisition.

Comparing the first quarter of 2006 with the previous quarter, interest and fee income (FTE) was up \$136 thousand or 0.2%. The increase largely resulted from rising yields on those assets, partially offset by the effect of a lower volume of average earning assets.

The average yield on earning assets excluding loan fees for the first three months of 2006 was 5.97% compared with 5.84% in the fourth quarter of 2005. The loan portfolio yield excluding loan fees for the first quarter of 2006 compared with the previous quarter was higher by 20 bp, due to increases in yields on commercial loans (up 31 bp), commercial real estate loans (up 22 bp), residential real estate loans (up 10 bp) and construction loans (up 67 bp.)

The investment portfolio yield rose by 1 bp. The increase resulted from higher average yields on U.S. government sponsored entity obligations (up 6 bp) and mortgage backed securities and collateralized mortgage obligations (up 3 bp), partially offset by lower average yields on municipal securities (down 5 bp) and corporate and other securities (down 3 bp.)

Average earning assets decreased \$33 million or 0.7% for the first quarter of 2006 compared with the previous quarter primarily due to a \$32 million decline in the investment portfolio. Decreases in average balances of mortgage backed securities and collateralized mortgage obligations (down \$28 million) and municipal securities (down \$7 million) were partially offset by a \$3 million increase in the average balance of other securities.

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The loan portfolio decreased \$1 million due to decreases in average balances of

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commercial loans (down \$15 million) and direct consumer loans (down \$5 million), offset by increases in average balances of construction loans (up \$7 million), residential real estate loans (up \$6 million) and indirect consumer loans (up \$4 million.)

Interest Expense

Interest expense in the first quarter of 2006 increased \$6.2 million or 73.7% compared with the same period in 2005. The increase was attributable to higher rates paid on the interest-bearing liabilities and growth in those liabilities.

The average rate paid on interest-bearing liabilities increased from 1.08% in the first quarter of 2005 to 1.82% in 2006. Rates paid on most liabilities moved with general market conditions: the average rate on federal funds purchased rose 197 bp and rates on deposits increased as well, including those on certificates of deposit ("CDs") over \$100 thousand, which rose 161 bp; on retail CDs, which went up by 48 bp; and on money market checking accounts, which rose an average of 9 bp.

Interest-bearing liabilities grew \$73 million or 2.3% for the first quarter of 2006 over the same period of 2005. CDs over \$100 thousand increased \$95 million, primarily due to inflows of public funds. Short term borrowings other than federal funds, primarily repurchase agreements with commercial banking customers, increased \$42 million. Long-term debt increased \$11 million, the net result of assumption of REBC's \$20 million subordinated debentures and scheduled annual repayments of senior notes. Offsetting the increase were decreases in retail CDs (down \$17 Million) and money market savings (down \$89 million).

Comparing the first quarter of 2006 with the previous quarter, interest expense rose \$2.0 million or 15.9%, due to higher rates paid on interest-bearing liabilities and growth of such liabilities.

Rates paid on liabilities averaged 1.82% during the first three months of 2006 compared with 1.56% in the fourth quarter of 2005. The most significant rate increases were federal funds purchased which rose 46 bp, CDs over \$100 thousand which rose 45 bp and retail CDs which increased by 16 bp.

Interest-bearing liabilities grew \$37 million or 1.2% over the fourth quarter of 2005. Federal funds purchased grew \$68 million and CDs over \$100 thousand increased \$31 million, primarily due to inflows of public funds. An \$11 million decline in retail CDs partially offset the increase.

In all periods, the Company has attempted to continue to reduce high-rate time deposits while increasing the balances of more profitable, lower-cost transaction accounts in order to minimize the cost of funds. Lower-cost transaction accounts experience seasonal trends primarily due to customer income and property tax payments, with the most significant deposit outflows occurring in the first calendar quarter of each year.

Net Interest Margin (FTE)

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

| Three months ended | |
|--------------------|--------------|
| March 31, | December 31, |
| ----- | ----- |

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| | 2006 | 2005 | 2005 |
|---|-------|-------|-------|
| Yield on earning assets | 6.00% | 5.65% | 5.87% |
| Rate paid on interest-bearing liabilities | 1.82% | 1.08% | 1.56% |
| Net interest spread | 4.18% | 4.57% | 4.31% |
| Impact of all other net noninterest bearing funds | 0.55% | 0.33% | 0.49% |
| Net interest margin | 4.73% | 4.90% | 4.80% |

During the first quarter of 2006, the net interest margin declined 17 bp compared with the same period in 2005. Rates paid on interest-bearing liabilities increased faster than the yields on earning assets, resulting in a 39 bp decline in net interest spread. The decline in the net interest spread was mitigated by the higher value of noninterest bearing funding sources. While the average balance of these sources increased \$41 million or 3.1%, their value increased 22 bp, from 33 bp in the first quarter of 2005 to 55 bp in the first quarter of 2006, because of the higher earning asset yields at which they could be invested.

The net interest margin declined by 7 bp when compared with the fourth quarter of 2005. Earning asset yields increased 13 bp, however, the cost of interest-bearing liabilities rose by 26 bp, resulting in a 13 bp decrease in the interest spread. Although noninterest bearing funding sources decreased \$80 million or 5.6%, their margin contribution increased by 6 bp.

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Summary of Average Balances, Yields/Rates and Interest Differential

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 March 31, 2006 | |
|------------------------------------|--|--------------------------------|
| | Average Balance | Interest Income/ Expense |
| Assets: | | |
| Money market assets and funds sold | \$820 | \$1 |

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| | | |
|---|-------------|----------|
| Investment securities: | | |
| Available for sale | | |
| Taxable | 411,109 | 4,403 |
| Tax-exempt (FTE) | 254,839 | 4,645 |
| Held to maturity | | |
| Taxable | 735,649 | 7,829 |
| Tax-exempt (FTE) | 587,812 | 9,125 |
| Loans: | | |
| Commercial: | | |
| Taxable | 359,147 | 7,371 |
| Tax-exempt (FTE) | 253,276 | 4,095 |
| Commercial real estate | 922,838 | 16,815 |
| Real estate construction | 78,349 | 1,687 |
| Real estate residential | 509,037 | 5,895 |
| Consumer | 493,302 | 6,620 |
| | ----- | ----- |
| Total loans | 2,615,949 | 42,483 |
| | ----- | ----- |
| Total earning assets | 4,606,178 | 68,486 |
| Other assets | 448,078 | |
| | ----- | ----- |
| Total assets | \$5,054,256 | |
| | ===== | |
| Liabilities and shareholders' equity | | |
| Deposits: | | |
| Noninterest bearing demand | \$1,355,501 | \$-- |
| Savings and interest-bearing transaction | 1,673,634 | 1,326 |
| Time less than \$100,000 | 254,002 | 1,460 |
| Time \$100,000 or more | 501,299 | 4,456 |
| | ----- | ----- |
| Total interest-bearing deposits | 2,428,935 | 7,242 |
| Short-term borrowed funds | 738,307 | 6,672 |
| Federal Home Loan Bank advances | 0 | 0 |
| Debt financing and notes payable | 38,124 | 598 |
| | ----- | ----- |
| Total interest-bearing liabilities | 3,205,366 | 14,512 |
| Other liabilities | 68,557 | |
| Shareholders' equity | 424,832 | |
| | ----- | ----- |
| Total liabilities and shareholders' equity | \$5,054,256 | |
| | ===== | |
| Net interest spread (1) | | |
| Net interest income and interest margin (2) | | |
| | | \$53,974 |
| | | ===== |

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

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

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March 31, 2005

| | Average Balance | Interest Income/ Expense |
|--|--------------------|--------------------------------|
| Assets: | | |
| Money market assets and funds sold | \$709 | \$0 |
| Investment securities: | | |
| Available for sale | | |
| Taxable | 584,174 | 6,117 |
| Tax-exempt (FTE) | 270,411 | 4,950 |
| Held to maturity | | |
| Taxable | 739,906 | 7,290 |
| Tax-exempt (FTE) | 549,020 | 8,683 |
| Loans: | | |
| Commercial: | | |
| Taxable | 349,171 | 5,701 |
| Tax-exempt (FTE) | 247,553 | 4,100 |
| Commercial real estate | 809,807 | 14,754 |
| Real estate construction | 45,737 | 810 |
| Real estate residential | 421,723 | 4,606 |
| Consumer | 500,719 | 6,365 |
| Total loans | 2,374,710 | 36,336 |
| Total earning assets | 4,518,930 | 63,376 |
| Other assets | 345,703 | |
| Total assets | \$4,864,633 | |
| Liabilities and shareholders' equity: | | |
| Deposits: | | |
| Noninterest bearing demand | \$1,314,485 | \$-- |
| Savings and interest-bearing transaction | 1,724,574 | 1,126 |
| Time less than \$100,000 | 271,461 | 1,238 |
| Time \$100,000 or more | 406,034 | 1,993 |
| Total interest-bearing deposits | 2,402,069 | 4,357 |
| Short-term borrowed funds | 703,468 | 3,570 |
| Debt financing and notes payable | 26,881 | 430 |
| Total interest-bearing liabilities | 3,132,418 | 8,357 |
| Other liabilities | 44,103 | |
| Shareholders' equity | 373,627 | |
| Total liabilities and shareholders' equity | \$4,864,633 | |
| Net interest spread (1) | | |
| Net interest income and interest margin (2) | | \$55,019 |

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

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

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| | For the three months ended December 31, 2005 | |
|--|---|--------------------------------|
| | Average Balance | Interest income/ expense |
| Assets: | | |
| Money market assets and funds sold | \$977 | \$1 |
| Investment securities: | | |
| Available for sale | | |
| Taxable | 412,002 | 4,394 |
| Tax-exempt (FTE) | 258,497 | 4,752 |
| Held to maturity | | |
| Taxable | 760,405 | 8,020 |
| Tax-exempt (FTE) | 590,626 | 9,211 |
| Loans: | | |
| Commercial: | | |
| Taxable | 377,918 | 7,503 |
| Tax-exempt (FTE) | 249,577 | 4,073 |
| Commercial real estate | 921,141 | 16,579 |
| Real estate construction | 70,881 | 1,451 |
| Real estate residential | 503,163 | 5,695 |
| Consumer | 494,132 | 6,670 |
| Total loans | 2,616,812 | 41,971 |
| Total earning assets | 4,639,319 | 68,349 |
| Other assets | 449,759 | |
| Total assets | \$5,089,078 | |
| Liabilities and shareholders' equity: | | |
| Deposits: | | |
| Noninterest bearing demand | \$1,435,193 | \$-- |
| Savings and interest-bearing transaction | 1,729,080 | 1,410 |
| Time less than \$100,000 | 264,570 | 1,444 |
| Time \$100,000 or more | 470,016 | 3,732 |
| Total interest-bearing deposits | 2,463,666 | 6,586 |
| Short-term borrowed funds | 664,752 | 5,296 |
| Debt financing and notes payable | 40,303 | 637 |
| Total interest-bearing liabilities | 3,168,721 | 12,519 |
| Other liabilities | 63,628 | |
| Shareholders' equity | 421,536 | |
| Total liabilities and shareholders' equity | \$5,089,078 | |
| Net interest spread (1) | | |
| Net interest income and interest margin (2) | | \$55,830 |

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

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

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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).

| | Three months ended March compared with three mo ended March 31, 200 | |
|---|---|-------|
| | Volume | Rate |
| Interest and fee income: | | |
| Money market assets and funds sold | \$0 | \$1 |
| Investment securities: | | |
| Available for sale | | |
| Taxable | (1,851) | 137 |
| Tax-exempt | (284) | (21) |
| Held to maturity | | |
| Taxable | (42) | 581 |
| Tax-exempt | 601 | (159) |
| Loans: | | |
| Commercial: | | |
| Taxable | 167 | 1,503 |
| Tax-exempt | 94 | (99) |
| Commercial real estate | 2,060 | 1 |
| Real estate construction | 673 | 204 |
| Real estate residential | 998 | 291 |
| Consumer | (95) | 350 |
| | ----- | ----- |
| Total loans | 3,897 | 2,250 |
| | ----- | ----- |
| Total earning assets | 2,321 | 2,789 |
| | ----- | ----- |
| Interest expense: | | |
| Deposits: | | |
| Savings and interest-bearing transaction | (34) | 234 |
| Time less than \$100,000 | (84) | 306 |
| Time \$100,000 or more | 553 | 1,910 |
| | ----- | ----- |
| Total interest-bearing deposits | 435 | 2,450 |
| | ----- | ----- |

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| | | |
|--|---------|-----------|
| Short-term borrowed funds | 185 | 2,917 |
| Debt financing and notes payable | 177 | (9) |
| | ----- | ----- |
| Total interest-bearing liabilities | 797 | 5,358 |
| | ----- | ----- |
| Increase (Decrease) in Net Interest Income | \$1,524 | (\$2,569) |
| | ===== | ===== |

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| | Three months ended March 31 compared with three months ended December 31, 200 | |
|---|---|---------|
| | Volume | Rate |
| | ----- | ----- |
| Interest and fee income: | | |
| Money market assets and funds sold | \$0 | \$0 |
| Investment securities: | | |
| Available for sale | | |
| Taxable | (10) | 19 |
| Tax-exempt | (67) | (40) |
| Held to maturity | | |
| Taxable | (263) | 72 |
| Tax-exempt | (44) | (42) |
| Loans: | | |
| Commercial: | | |
| Taxable | (380) | 248 |
| Tax-exempt | 60 | (38) |
| Commercial real estate | 31 | 205 |
| Real estate construction | 158 | 78 |
| Real estate residential | 67 | 133 |
| Consumer | (11) | (39) |
| | ----- | ----- |
| Total loans | (75) | 587 |
| | ----- | ----- |
| Total earning assets | (459) | 596 |
| | ----- | ----- |
| Interest expense: | | |
| Deposits: | | |
| Savings and interest-bearing transaction | (45) | (39) |
| Time less than \$100,000 | (59) | 75 |
| Time \$100,000 or more | 259 | 465 |
| | ----- | ----- |
| Total interest-bearing deposits | 155 | 501 |
| | ----- | ----- |
| Short-term borrowed funds | 622 | 754 |
| Debt financing and notes payable | (34) | (5) |
| | ----- | ----- |
| Total interest-bearing liabilities | 743 | 1,250 |
| | ----- | ----- |
| Decrease in Net Interest Income | (\$1,202) | (\$654) |
| | ===== | ===== |

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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 \$150 thousand for credit losses in the first quarter of 2005, compared with \$150 thousand in the fourth quarter and \$300 thousand in the first quarter of 2005. The provision reflects the Company's loss experience and Management's assessment of credit risk in the loan portfolio for each of the periods presented. For further information regarding net credit losses and the allowance for loan losses, see the "Classified Loans" 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 | | |
|-------------------------------------|--------------------|----------------|-----------------|
| | March 31, | | December 31, |
| | 2006 | 2005 | |
| Service charges on deposit accounts | \$7,083 | \$6,927 | \$7,202 |
| Merchant credit card fees | 2,385 | 1,298 | 2,751 |
| Debit card fees | 828 | 697 | 865 |
| ATM fees and interchange | 678 | 624 | 653 |
| Official check issuance income | 334 | 225 | 310 |
| Financial services commissions | 298 | 279 | 380 |
| Trust fees | 282 | 273 | 275 |
| Check sale income | 200 | 289 | 176 |
| Mortgage banking income | 50 | 100 | 62 |
| Securities losses | 0 | (4,903) | 0 |
| Other noninterest income | 1,501 | 1,386 | 1,753 |
| Total | \$13,639 | \$7,195 | \$14,427 |

Noninterest income for the first quarter of 2006 rose by \$6.4 million or 89.6% from the same period in 2005, which included \$4.9 million in securities losses arising from sales of investment securities available for sale. Merchant credit card income increased \$1.1 million or 83.7% primarily due to the acquisition of the merchant card servicing business of Redwood Empire Bancorp on March 1, 2005. Service charges on deposit accounts increased \$156 thousand or 2.25% mainly due to a \$199 thousand increase in overdraft fees, partially offset by declines in retail and business checking account service fees. Debit card fees rose \$131 thousand or 18.8% largely due to increased usage. Official check issuance income increased \$109 thousand or 48.4% mainly due to higher earning credit rates on outstanding checks. Other noninterest income was higher by \$115 thousand or 8.3%

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mostly due to \$108 thousand in interest received on tax refunds.

In the first quarter of 2006, noninterest income decreased \$788 thousand or 5.5% compared with the previous quarter. Merchant credit card income declined \$366 thousand or 13.3% primarily due to seasonally lower credit card sales. Service charges on deposit accounts fell \$119 thousand or 1.7% mostly due to a \$124 thousand decline in overdraft fees. Other noninterest income declined \$252 thousand or 14.4% mainly because the previous quarter included \$357 thousand in life insurance proceeds while the first quarter of 2006 included \$108 thousand in interest received on tax refunds.

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Noninterest Expense

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

| | Three months ended | | |
|--|--------------------|----------|--------------|
| | March 31, | | December 31, |
| | 2006 | 2005* | 2005* |
| Salaries and incentives | \$13,258 | \$13,883 | \$13,867 |
| Occupancy | 3,232 | 2,952 | 3,196 |
| Data processing services | 1,534 | 1,548 | 1,524 |
| Equipment | 1,266 | 1,230 | 1,321 |
| Amortization of identifiable intangibles | 1,040 | 405 | 1,064 |
| Courier service | 922 | 926 | 952 |
| Professional fees | 457 | 720 | 599 |
| Telephone | 432 | 528 | 497 |
| Postage | 410 | 422 | 441 |
| Customer checks | 290 | 231 | 248 |
| Stationery and supplies | 270 | 348 | 314 |
| Advertising/public relations | 234 | 206 | 237 |
| Loan expense | 195 | 204 | 200 |
| Operational losses | 189 | 190 | 303 |
| Correspondent service charges | 183 | 250 | 217 |
| Other noninterest expense | 1,571 | 1,820 | 2,000 |
| | | | |
| Total | \$25,483 | \$25,863 | \$26,980 |
| | | | |
| Average full time equivalent staff | 939 | 963 | 945 |
| Noninterest expense to revenues (FTE) | 37.69% | 41.57% | 38.40% |

* Reflects the adoption of SFAS 123(R)

Noninterest expense decreased \$380 thousand or 1.5% in the first quarter of 2006 compared with the same period in 2005. The largest decline was salaries and incentives, which was down \$625 thousand or 4.5% mainly due to a \$211 thousand decrease in stock based compensation (Restricted Performance Shares ("RPS") and stock options), a \$186 thousand decrease in regular salaries resulting from

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reduced full time equivalent employees, a \$153 thousand decrease in retirement plan costs, and a \$112 thousand decrease in employee incentives, partially offset by annual merit increases to continuing staff. Professional fees were down \$263 thousand or 36.5% mainly because the first quarter of 2005 included legal fees associated with the REBC acquisition and higher audit fees. Other noninterest expense declined \$249 thousand or 13.7% mainly due to lower cost of insurance. The \$635 thousand increase in amortization of identifiable intangibles was attributable to the REBC acquisition. Occupancy expense increased \$280 thousand 9.5% primarily due to a \$289 thousand increase in rent, net of sublease income, resulting from the REBC acquisition and annual increases.

In the first three months of 2006, noninterest expense fell \$1.5 million or 5.6% compared with the fourth quarter of 2005. Salaries and incentives declined \$609 thousand or 4.4% mainly due to a decrease in incentives and stock based compensation (stock options), offset in part by a seasonal increase in payroll taxes. Other noninterest expense declined \$429 thousand or 21.5% due to a \$357 thousand gain on company owned life insurance. Professional fees decreased \$142 thousand or 23.7% mainly due to decreased legal fees relating to loans. Finally, operational losses declined \$114 thousand.

Provision for Income Tax

During the first quarter of 2006, the Company recorded income tax expense (FTE) of \$15.9 million, compared to \$13.7 million and \$16.0 million for the first and fourth quarters of 2005, respectively. The current quarter provision represents an effective tax rate of 37.8%, compared with 37.4% and 36.4% for the first and fourth quarters of 2005, respectively.

The tax provisions and effective tax rates fluctuated due to the relative level of tax- exempt income from municipal investments and loans to the level of pretax income, tax-free life insurance proceeds of \$375 thousand in the fourth quarter of 2005, and benefits from the apportionment of income to affiliates for state tax purposes.

Classified Loans

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.

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

At March 31,

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| | -----Deco | 2006 | 2005 |
|---|-----------|----------|----------|
| Classified loans | | \$28,878 | \$35,258 |
| Other real estate owned | | 0 | 0 |
| Classified loans and other real estate owned | | \$28,878 | \$35,258 |
| Allowance for loan losses / classified loans | | 193% | 170% |

Classified loans at March 31, 2006, decreased \$6.4 million or 18.1% from a year ago. Classified loans increased \$16.1 million at the time of the acquisition of REBC. The subsequent decline resulted from upgrades, charge-offs and payoffs, partially offset by new downgrades. Other real estate owned remained at zero at the end of each period shown above. A \$1.1 million or 3.7% decrease in classified loans from December 31, 2005 was generally due to paydowns and improved credit quality.

Nonperforming Loans

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 OREO on the dates indicated (dollars in thousands):

| | At March 31, | At | -----December 31, |
|--|--------------|---------|-------------------|
| | 2006 | 2005 | 2005 |
| Performing nonaccrual loans | \$3,232 | \$6,550 | \$4,256 |
| Nonperforming, nonaccrual loans | 2,993 | 1,766 | 2,068 |
| Total nonaccrual loans | 6,225 | 8,316 | 6,324 |
| Loans 90 days past due and still accruing | 29 | 107 | 162 |
| Total nonperforming loans | 6,254 | 8,423 | 6,486 |
| Other real estate owned | 0 | 0 | 0 |

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| | | | |
|--------------------------------|---------|---------|---------|
| Total | \$6,254 | \$8,423 | \$6,486 |
| | ===== | | |
| As a percentage of total loans | 0.24% | 0.31% | 0.24% |

Performing nonaccrual loans at March 31, 2006 decreased \$3.3 million or 50.7% as the \$4.0 million performing nonaccrual loans acquired from REBC were charged off or paid off. Performing nonaccrual loans at March 31, 2006 decreased \$1.0 million or 24.1% mainly due to charge-offs, loans being returned to accrual status and loans being placed on nonperforming nonaccrual, partially offset by new loans being placed on nonaccrual.

Nonperforming nonaccrual loans at March 31, 2006 increased \$1.2 million or 69.5% and \$925 thousand or 44.7% from the previous year and December 31, 2005, respectively. The increase was due to the net result of loans being added to nonaccrual, partially offset by loans returned to accrual status or being charged off or paid off.

The Company had no restructured loans as of March 31, 2006 and 2005 and December 31, 2005.

The amount of gross interest income that would have been recorded for nonaccrual loans for the three months ended March 31, 2006, if all such loans had been current in accordance with their original terms, was \$120 thousand, compared to \$124 thousand and \$134 thousand, respectively, for the first and fourth quarters of 2005.

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 months ended March 31, 2006, totaled \$60 thousand, compared to \$165 thousand and \$45 thousand, respectively, for the first and fourth quarters of 2005. These cash payments represent annualized yields of 4.15% for first three months of 2006 compared to 10.15% and 2.83%, respectively, for the first and the fourth quarter of 2005.

Total cash payments received, including those recorded in prior years, which were applied against the book balance of nonaccrual loans outstanding at March 31, 2006, totaled approximately \$32 thousand, compared with \$151 thousand and \$124 thousand for the first and the fourth quarters of 2005, respectively.

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Management believes the overall credit quality of the loan portfolio continues to be strong; however, nonperforming assets could fluctuate from period to period. The performance of any individual loan can be impacted by external factors such as the interest rate environment, economic conditions or factors particular to the borrower. No assurance can be given that additional increases in nonaccrual loans 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, 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

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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 \$59.5 million allowance for credit losses to be adequate as a reserve against losses as of March 31, 2006.

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

| | Three months ended | |
|---|--------------------|----------|
| | March 31, | |
| | 2006 | 2005 |
| Balance, beginning of period | \$59,537 | \$54,152 |
| Credit loss provision | 150 | 300 |
| Allowance acquired through merger | 0 | 5,213 |
| Loans charged off | (1,118) | (599) |
| Recoveries of previously charged off loans | 887 | 793 |
| Net credit recoveries (losses) | (231) | 194 |
| Balance, end of period | \$59,456 | \$59,859 |
| Components: | | |
| Allowance for loan losses | 55,768 | 59,859 |
| Reserve for unfunded credit commitments (1) | 3,688 | -- |
| Allowance for credit losses | \$59,456 | \$59,859 |
| Allowance for loan losses / loans outstanding | 2.11% | 2.21% |

(1) Effective December 31, 2005, the Company transferred the portion of the allowance for credit losses related to lending commitments and letters of credit to other liabilities.

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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 the most significant market risk 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.

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 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.

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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 200 bp in the federal funds rate and an increase of 156 bp in the 10 year Constant Maturity Treasury Bond yield during the same period, estimated earnings at risk would be approximately 4.7% of the Company's most likely net income plan for 2006. 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 sources of asset liquidity are investment securities available for sale and principal payments from investment securities held to maturities and consumer loans. At March 31, 2006, investment securities available for sale totaled \$643 million. At March 31, 2006, residential real estate loans and indirect auto loans totaled \$923 million. In addition, at March 31, 2006, 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 \$22.2 million was outstanding at March 31, 2006. As a member of the Federal Reserve System, the Company also has the ability to borrow from the Federal Reserve. The Company's short-term debt rating from Fitch Ratings is F1 with a stable outlook. 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 expects the Company can access additional long-term debt financing if desired. The Company generates significant liquidity from its operating activities. The Company's profitability

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during the first three months of 2006 and 2005 contributed to substantial operating cash flows of \$33.5 million and \$32.5 million, respectively. In 2006, operating activities provided enough cash for \$23.0 million of Company stock repurchases and \$10.2 million in shareholder dividends. In 2005, operating activities provided a substantial portion of cash for \$9.5 million in shareholder dividends, \$3.2 million for repayment of long term debt and \$20.4 million utilized to repurchase common stock.

In the first three months of 2006, investing activities generated \$75.7 million, compared with \$168.6 million in the same period of 2005. In 2006, sales and maturities, net of purchases, of investment securities were \$44.0 million. In 2005, sales and maturities, net of purchases, of investment securities were \$172.0 million, which were used to reduce short-term borrowings by \$112.3 million. In the first quarter of 2005, the Company used net cash of \$35.2 million for the REBC acquisition, which use had been largely facilitated in 2004 by reducing the allocation of operating cash flow used to repurchase and retire common stock.

The Company anticipates maintaining its cash levels in 2006 mainly through profitability and retained earnings. It is anticipated that loan demand will increase moderately in 2006, although such demand will be dictated by economic conditions. The growth of deposit balances is expected to exceed the anticipated growth in loan demand through the end of 2006. Depending on economic conditions, interest rate levels, and a variety of other conditions, excess deposit growth may be used to purchase investment securities or to reduce short-term borrowings. However, due to changes in consumer confidence, possible terrorist attacks, the war in Iraq, and changes in the general economic environment, loan demand and levels of customer deposits are not certain. Shareholder dividends and share repurchases are expected to continue in 2006 but will depend on the Board's ongoing evaluation of the advisability of such actions.

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 the payment of dividends to its shareholders, and interest and principal on outstanding debt. Substantially all of the Parent Company's revenues are obtained from service fees and dividends received from the Bank. 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.

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, and other ongoing requirements. In addition, other 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 429 thousand shares in the first quarter of 2006, 372 thousand shares in the first quarter of 2005, and 500 thousand shares in the fourth quarter of 2005.

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 \$429.4 million at March 31, 2006.

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This amount, which is reflective of the effect of the generation of earnings, offset by common stock repurchases, dividends paid to shareholders and unrealized loss on securities available for sale, represents a decrease of \$16.6 million or 3.71% from a year ago, and a decrease of \$5.7 million or 1.31% from December 31, 2005. The Company's ratio of equity to total assets declined to 8.49% at March 31, 2006, from 8.57% a year ago. The shareholder's equity to total assets increased at March 31, 2006, compared with 8.44% at December 31, 2005.

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

| | At March 31, | At | At | Minimum |
|----------------|--------------|--------|--------------|-------------|
| | ----- | ----- | December 31, | Regulatory |
| | 2006 | 2005 | 2005 | Requirement |
| | ----- | ----- | ----- | ----- |
| Tier I Capital | 9.41% | 8.94% | 9.08% | 4.00% |
| Total Capital | 10.73% | 10.28% | 10.40% | 8.00% |
| Leverage ratio | 6.18% | 6.32% | 6.01% | 4.00% |

The risk-based capital ratios rose at March 31, 2006, compared with the first quarter of 2005, due to a decrease in risk-weighted assets and a decrease in goodwill. The risk-based capital ratios rose at March 31, 2006 from the previous quarter due to a decrease 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 March 31, 2006. Based upon their evaluation, the principal executive officer and principal financial officer

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concluded that the Company's disclosure controls and procedures are effective. The evaluation did not identify any change in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2006 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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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, 2005.

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 March 31, 2006 (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 |
|--------------------------------------|--|---|--|---|
| January 1 through January 31 | 95 | \$53.35 | 95 | 1,386 |
| February 1 through February 28 | 265 | 53.94 | 265 | 1,121 |

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| | | | | |
|--------------------------------|-----|---------|-----|-------|
| March 1 through March 31 | 69 | 52.80 | 69 | 1,052 |
| ----- | | | | |
| Total | 429 | \$53.62 | 429 | 1,052 |
| ===== | | | | |

* Includes 6 thousand, 7 thousand and 4 thousand shares purchased in January, February and March, 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 first quarter of 2006 pursuant to a program approved by the Board of Directors on August 25, 2005 authorizing the purchase of up to 2,000,000 shares of the Company's common stock from time to time prior to September 1, 2006.

Item 3. Defaults upon Senior Securities

None

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

None

Item 5. Other Information

None

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Item 6. Exhibits and Reports on Form 8-K

(a) Exhibit 11: Computation of Earnings Per Share on Common and Common Equivalent Shares and on Common Shares Assuming Full Dilution

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

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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

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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)

May 5, 2006

Date

/s/ John "Robert" Thorson

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