

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

WESTAMERICA BANCORPORATION

Form 10-Q

November 01, 2007

Page 1

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2007

OR

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

For the transition period from _____ to _____

Commission file number: 001-9383

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

CALIFORNIA 94-2156203
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)

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

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

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

Yes No

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

Large Accelerated Filer Accelerated Filer
Non-Accelerated Filer

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

Yes No

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

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

of common stock, as of the latest practicable date:

Title of Class	Shares outstanding as of October 24, 2007
Common Stock, No Par Value	29,347,330

Page 2

TABLE OF CONTENTS

Forward Looking Statements

PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

Notes to Unaudited Condensed Consolidated Financial Statements

Financial Summary

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

Item 3 - Quantitative and Qualitative Disclosures about Market Risk

Item 4 - Controls and Procedures

PART II - OTHER INFORMATION

Item 1 - Legal Proceedings

Item 1A - Risk Factors

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

Item 3 - Defaults upon Senior Securities

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

Item 5 - Other Information

Item 6 - Exhibits

Signature

Exhibit Index

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

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

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

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

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

FORWARD-LOOKING STATEMENTS

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

Page 3

Part I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	At September 30,	At
	2007	December 31, 2006
	2006*	2006
Assets:		
Cash and cash equivalents	\$219,631	\$191,611
Money market assets	329	564
Investment securities available for sale	570,086	617,736
Investment securities held to maturity,		
with market values of:		
\$1,076,035 at September 30, 2007	1,081,009	
\$1,204,811 at September 30, 2006		1,211,589

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

\$1,155,736 at December 31, 2006			1,165,092
Loans, gross	2,511,374	2,552,929	2,531,734
Allowance for loan losses	(52,938)	(55,338)	(55,330)
<hr/>			
Loans, net of allowance for loan losses	2,458,436	2,497,591	2,476,404
Other real estate owned	613	656	647
Premises and equipment, net	28,666	30,979	30,188
Identifiable intangibles	19,322	23,098	22,082
Goodwill	121,719	121,719	121,719
Interest receivable and other assets	157,205	148,573	152,669
<hr/>			
Total Assets	\$4,657,016	\$4,844,116	\$4,769,335
<hr/>			
Liabilities:			
Deposits:			
Noninterest bearing	\$1,251,572	\$1,298,519	\$1,341,019
Interest bearing:			
Transaction	549,263	581,705	588,668
Savings	806,797	926,262	865,268
Time	732,582	744,645	721,779
<hr/>			
Total deposits	3,340,214	3,551,131	3,516,734
Short-term borrowed funds	815,101	768,841	731,977
Debt financing and notes payable	36,809	36,956	36,920
Liability for interest, taxes and other expenses	61,241	58,456	59,469
<hr/>			
Total Liabilities	4,253,365	4,415,384	4,345,100
<hr/>			
Shareholders' Equity:			
Authorized - 150,000 shares of common stock			
Issued and outstanding:			
29,378 at September 30, 2007	334,637		
30,910 at September 30, 2006		343,869	
30,547 at December 31, 2006			341,529
Deferred compensation	2,990	2,734	2,734
Accumulated other comprehensive (loss) income	(412)	1,805	1,850
Retained earnings	66,436	80,324	78,122
<hr/>			
Total Shareholders' Equity	403,651	428,732	424,235
<hr/>			
Total Liabilities and Shareholders' Equity	\$4,657,016	\$4,844,116	\$4,769,335
<hr/>			

See accompanying notes to unaudited condensed consolidated financial statements.

* Adjusted to adopt SAB No. 108

Page 4

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

Three months ended
September 30,

Nine months
September

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

	2007	2006	2007
<hr/>			
Interest Income:			
Loans	\$41,134	\$41,292	\$122,027
Money market assets and funds sold	2	1	5
Investment securities available for sale			
Taxable	3,902	4,099	11,891
Tax-exempt	2,811	3,128	8,785
Investment securities held to maturity			
Taxable	5,712	6,973	17,966
Tax-exempt	5,736	5,872	17,337
<hr/>			
Total interest income	59,297	61,365	178,011
<hr/>			
Interest Expense:			
Transaction deposits	526	430	1,577
Savings deposits	1,649	1,173	4,509
Time deposits	7,791	7,408	22,637
Short-term borrowed funds	8,601	7,399	25,614
Notes payable	578	578	1,735
<hr/>			
Total interest expense	19,145	16,988	56,072
<hr/>			
Net Interest Income	40,152	44,377	121,939
<hr/>			
Provision for credit losses	75	75	225
<hr/>			
Net Interest Income After Provision For Credit Losses	40,077	44,302	121,714
<hr/>			
Noninterest Income:			
Service charges on deposit accounts	7,569	7,155	22,813
Merchant credit card	2,808	2,430	8,024
Debit card	969	883	2,825
Financial services commissions	383	377	1,057
Trust fees	337	298	978
Mortgage banking	29	36	92
Other	2,549	2,720	8,832
<hr/>			
Total Noninterest Income	14,644	13,899	44,621
<hr/>			
Noninterest Expense:			
Salaries and related benefits	12,587	13,080	37,776
Occupancy	3,327	3,321	9,960
Data processing	1,800	1,503	4,866
Equipment	1,083	1,194	3,367
Amortization of intangibles	893	1,016	2,760
Courier service	854	904	2,559
Professional fees	451	532	1,355
Other	3,858	3,853	11,579
<hr/>			
Total Noninterest Expense	24,853	25,403	74,222
<hr/>			
Income Before Income Taxes	29,868	32,798	92,113
Provision for income taxes	7,846	8,561	24,169
<hr/>			
Net Income	\$22,022	\$24,237	\$67,944
<hr/> <hr/>			

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Average Shares Outstanding	29,532	31,070	29,935
Diluted Average Shares Outstanding	29,915	31,558	30,365
Per Share Data:			
Basic Earnings	\$0.75	\$0.78	\$2.27
Diluted Earnings	0.74	0.77	2.24
Dividends Paid	0.34	0.32	1.02

See accompanying notes to unaudited condensed consolidated financial statements.

Page 5

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

	Shares	Common Stock	Deferred Compensation	Accumulated Comprehensive (Loss) Income	R E
Balance, December 31, 2005	31,882	\$343,035	\$2,423	\$1,882	
Adjustment to initially apply SAB Statement No. 108, net of tax	--	--	--	--	
Balance at January 1, 2006	31,882	343,035	2,423	1,882	
Comprehensive income					
Net income for the period					
Other comprehensive income, net of tax:					
Net unrealized loss on securities available for sale				(77)	
Total comprehensive income					
Exercise of stock options	361	11,325			
Stock option tax benefits		1,628			
Restricted stock activity	20	727	311		
Stock based compensation		1,919			
Stock awarded to employees	3	138			
Purchase and retirement of stock	(1,356)	(14,903)			
Dividends					
Balance, September 30, 2006	30,910	\$343,869	\$2,734	\$1,805	
Balance, December 31, 2006	30,547	\$341,529	\$2,734	\$1,850	
Comprehensive income					
Net income for the period					
Other comprehensive income, net of tax:					
Net unrealized loss on securities available for sale				(2,290)	
Post-retirement benefit transition obligation amortization				28	

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Total comprehensive income				
Exercise of stock options	212	7,251		
Stock option tax benefits		116		
Restricted stock activity	12	302	256	
Stock based compensation		1,389		
Stock awarded to employees	3	139		
Purchase and retirement of stock	(1,396)	(16,089)		
Dividends				
Balance, September 30, 2007	29,378	\$334,637	\$2,990	(\$412)

See accompanying notes to unaudited condensed consolidated financial statements.

Page 6

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

	For the nine ended September
	2007
Operating Activities:	
Net income	\$67,944
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	7,194
Provision for credit losses	225
Amortization of loan fees, net of cost	(935)
Increase in interest income receivable	(169)
Increase in other assets	(9,220)
Stock option compensation expense	1,389
Excess tax benefits from stock-based compensation	(116)
Increase (decrease) in income taxes payable	1,357
Increase in interest expense payable	275
Increase in other liabilities	4,103
Net loss on writedown of equipment	50
Originations of loans for resale	(516)
Proceeds from sale of loans originated for resale	521
Net loss on writedown of property acquired in satisfaction of debt	34
Net Cash Provided by Operating Activities	72,136
Investing Activities:	
Net repayments of loans	18,673
Purchases of investment securities available for sale	(30,107)
Proceeds from maturity and paydown of securities available for sale	73,368
Proceeds from maturity and paydown of securities held to maturity	84,083
Purchases of FRB/FHLB* securities	(108)

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Proceeds from sale of FRB/FHLB* securities	73
Purchases of property, plant and equipment	(1,070)
	144,912
Net Cash Provided by Investing Activities	144,912
Financing Activities:	
Net decrease in deposits	(176,520)
Net increase (decrease) in short-term borrowings	83,124
Repayments of notes payable	(111)
Exercise of stock options	7,251
Excess Tax benefits from stock-based compensation	116
Repurchases/retirement of stock	(65,086)
Dividends paid	(30,633)
	(181,859)
Net Cash Used In Financing Activities	(181,859)
Net Increase (Decrease) In Cash and Cash Equivalents	35,189
Cash and Cash Equivalents at Beginning of Period	184,442
Cash and Cash Equivalents at End of Period	\$219,631
Supplemental Disclosure of Noncash Activities:	
Loans transferred to other real estate/repossessed collateral	\$0
Unrealized loss on securities available for sale	(\$2,290)
Supplemental Disclosure of Cash Flow Activity:	
Interest paid for the period	56,348
Income tax payments for the period	22,799

See accompanying notes to unaudited condensed consolidated financial statements.

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

Page 7

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Basis of Presentation

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

Note 2: Significant Accounting Policies.

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

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

significant of these involve the Allowance for Credit Losses, which is discussed in Note 1 to the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

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

	As Originally Reported	SAB 108 Adjustment	As Adjusted
Liability for interest, taxes and other expenses	\$61,456	(\$3,000)	\$58,456
Interest receivable and other assets	149,817	(1,244)	148,573
Retained earnings	78,568	1,756	80,324

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

In February 2007, the FASB issued FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities -- Including an Amendment of FASB Statement No. 115 ("FAS 159"). This standard permits entities to choose to measure many financial assets and liabilities and certain other items at fair value. An enterprise will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option may be applied on an instrument-by-instrument basis, with several exceptions, such as those investments accounted for by the equity method, and once elected, the option is irrevocable unless a new election date occurs. The fair value option can be applied only to entire

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

instruments and not to portions thereof. FAS 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. The Company is currently evaluating the effects of adopting FAS 159 on its consolidated financial statements.

Page 8

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 nine months ended September 30, 2007 and September 30, 2006. Identifiable intangibles are amortized to their estimated residual values over their expected useful lives. Such lives and residual values are also periodically reassessed to determine if any amortization period adjustments are indicated. During the nine months ended September 30, 2007 and September 30, 2006, no such adjustments were recorded.

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

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

September 30, 2006	\$121,719
	=====
December 31, 2006	\$121,719
	--

September 30, 2007	\$121,719
	=====

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

	September 30,			
	2007		2006	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization

Core Deposit Intangibles	\$24,383	(\$10,872)	\$24,383	(\$8,686)

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Merchant Draft Processing Intangible	10,300	(4,489)	10,300	(2,899)

Total Intangible Assets	\$34,683	(\$15,361)	\$34,683	(\$11,585)
	=====			

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

	Core Deposit Intangibles	Merchant Draft Processing Intangible	Total

Nine months ended September 30, 2007 (actual)	\$1,620	\$1,141	\$2,761
Estimate for year ended December 31,			
2007	2,153	1,500	3,653
2008	2,021	1,200	3,221
2009	1,859	962	2,821
2010	1,635	774	2,409
2011	1,386	624	2,010
2012	1,230	500	1,730

Note 4: Post Retirement Benefits

The Company uses an actuarial-based accrual method of accounting for post-retirement benefits. The Company offers a continuation of group insurance coverage to employees hired prior to February 1, 2006 who qualify for and elect early retirement prior to attaining age 65. The Company pays a portion of these early retirees' insurance premium which are determined at their date of retirement. The Company reimburses a portion of Medicare Part B premiums for all retirees over 65 and their qualified spouses.

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

	For the nine months ended September 30,	
	2007	2006

	(In thousands) (In thousands)	
Service cost	\$12	\$141
Interest cost	198	159
Amortization of unrecognized transition obligation	45	45

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Net periodic cost	\$255	\$345
	=====	

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

Page 9

Note 5: Accounting for Uncertainty in Income Taxes

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

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

Balance at September 30, 2007	\$792
	=====

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

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

Note 6: Earnings Per Common Share

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

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

(In thousands, except per share data)	For the three months ended September 30,		For the nine months ended September
	2007	2006	2007
Weighted average number of common shares outstanding - basic	29,532	31,070	29,935
Add exercise of options reduced by the number of shares that could have been purchased with the proceeds of such exercise	383	488	430
Weighted average number of common shares outstanding - diluted	29,915	31,558	30,365
Net income	\$22,022	\$24,237	\$67,944
Basic earnings per share	\$0.75	\$0.78	\$2.27
Diluted earnings per share	\$0.74	\$0.77	\$2.24

For the three months ended September 30, 2007 and 2006, options to purchase 1.3 million and 715 thousand shares of common stock, respectively, were outstanding but not included in the computation of diluted net income per share because the option exercise price exceeded the fair value of the stock such that their inclusion would have had an anti-dilutive effect. Similarly, for the nine months ended September 30, 2007 and 2006, options to purchase 1.0 million and 726 thousand shares of common stock, respectively, were outstanding but not included in the computation of diluted net income per share because they were anti-dilutive.

Page 10

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

	Three months ended September 30,		Nine months e September 3
	2007	2006	2007
Net Interest Income (FTE)****	\$45,563	\$50,198	\$138,536
Provision for Credit Losses	(75)	(75)	(225)
Noninterest Income	14,644	13,899	44,621
Noninterest Expense	(24,853)	(25,403)	(74,222)
Provision for income taxes (FTE)****	(13,257)	(14,382)	(40,766)
Net Income	\$22,022	\$24,237	\$67,944

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Average Shares Outstanding	29,532	31,070	29,935
Diluted Average Shares Outstanding	29,915	31,558	30,365
Shares Outstanding at Period End	29,378	30,910	29,378
 As Reported:			
Basic Earnings Per Share	\$0.75	\$0.78	\$2.27
Diluted Earnings Per Share	\$0.74	\$0.77	\$2.24
Return On Assets	1.89%	1.98%	1.95%
Return On Equity	21.73%	22.75%	22.24%
Net Interest Margin (FTE)****	4.34%	4.54%	4.37%
Net Loan Losses to Average Loans	0.10%	0.07%	0.14%
Efficiency Ratio***	41.3%	39.6%	40.5%
 Average Balances:			
Total Assets	\$4,628,728	\$4,846,286	\$4,670,019
Earning Assets	4,198,859	4,419,609	4,243,610
Total Gross Loans	2,514,685	2,555,472	2,516,939
Total Deposits	3,358,163	3,602,566	3,387,591
Shareholders' Equity	402,016	422,735	408,497
 Balances at Period End:*			
Total Assets	\$4,657,016	\$4,844,116	
Earning Assets	4,162,798	4,382,818	
Total Gross Loans	2,511,374	2,552,929	
Total Deposits	3,340,214	3,551,131	
Shareholders' Equity	403,651	428,732	
 Financial Ratios at Period End:**			
Allowance for Loan Losses to Loans	2.11%	2.18%	
Book Value Per Share	\$13.74	\$13.87	
Equity to Assets	8.67%	8.85%	
Total Capital to Risk Adjusted Assets		11.02%	
 Dividends Paid Per Share			
Dividends Paid Per Share	\$0.34	\$0.32	\$1.02
Dividend Payout Ratio	46%	42%	46%

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

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

** Book value per share and equity to assets at September 30, 2006 have been adjusted to adopt SAB No. 108.

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

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

Page 11

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

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Westamerica Bancorporation and subsidiaries (the "Company") reported third quarter 2007 net income of \$22.0 million or \$0.74 diluted earnings per share. These results compare with net income of \$24.2 million or \$0.77 diluted earnings per share for the same period of 2006.

On a year-to-date basis, the Company reported net income for the nine months ended September 30, 2007 of \$67.9 million or diluted earnings per share of \$2.24, compared with \$74.8 million or \$2.34 diluted earnings per share for the same period of 2006.

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

	Three months ended September 30,		Nine months e September 3
	2007	2006	2007
Net interest income (FTE)	\$45,563	\$50,198	\$138,536
Provision for credit losses	(75)	(75)	(225)
Noninterest income	14,644	13,899	44,621
Noninterest expense	(24,853)	(25,403)	(74,222)
Provision for income taxes (FTE)	(13,257)	(14,382)	(40,766)
Net income	\$22,022	\$24,237	\$67,944
Average diluted shares	29,915	31,558	30,365
Diluted earnings per share	\$0.74	\$0.77	\$2.24
Average total assets	\$4,628,728	\$4,846,286	\$4,670,019
Net income (annualized) to average total assets	1.89%	1.98%	1.95%

Net income for the third quarter of 2007 was \$2.2 million or 9.1% less than the same quarter of 2006, attributable to lower net interest income (FTE), partially offset by higher noninterest income and decreases in noninterest expense and income tax provision (FTE). The decrease in net interest income (FTE) (down \$4.6 million or 9.2%) was the net result of lower average interest-earning assets and higher funding costs, partially offset by higher yields on earning assets and higher loan fee income. The provision for credit losses was unchanged from a year ago, reflecting Management's assessment of credit risk for the loan portfolio. Noninterest income rose \$745 thousand or 5.4% mainly due to higher service charges on deposits and merchant credit card income. Noninterest expense decreased \$550 million or 2.2% mostly due to lower personnel costs. The provision for income taxes (FTE) decreased \$1.1 million or 7.8% primarily due to lower profitability.

Comparing the first nine months of 2007 to the prior year, net income decreased \$6.9 million or 9.2%, due to lower net interest income (FTE), partially offset by higher noninterest income and declines in the provision for credit losses, noninterest expense and tax provision (FTE). The lower net interest income (FTE) was mainly caused by a lower volume of average interest-earning assets and higher funding costs, partially offset by higher yields on earnings assets. The provision for credit losses decreased \$150 thousand or 40.0% to reflect

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Management's judgment on credit risk and the level of the allowance for credit losses. Noninterest income increased \$3.0 million or 7.3% largely due to higher service charges on deposits, merchant credit card income and company-owned life insurance proceeds. Noninterest expense declined \$3.0 million or 3.9% primarily due to lower personnel costs. The income tax provision (FTE) decreased \$4.1 million or 9.0% primarily due to lower profitability.

Page 12

Net Interest Income

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

	Three months ended September 30,		Nine months e September 3
	2007	2006	2007
Interest and fee income	\$59,297	\$61,365	\$178,011
Interest expense	(19,145)	(16,988)	(56,072)
FTE adjustment	5,411	5,821	16,597
Net interest income (FTE)	\$45,563	\$50,198	\$138,536
Average earning assets	\$4,198,859	\$4,419,609	\$4,243,610
Net interest margin (FTE)	4.34%	4.54%	4.37%

During the periods presented, competition for deposits has intensified due to rising short-term interest rates, loan growth exceeding deposit growth in the banking industry, and other factors. Deposit competition within the banking industry has caused deposit costs to rise, while competitive rates on commercial loans have not changed significantly. The resulting increase in funding costs has not been offset fully by rising yields on loans and investments due to relatively stable intermediate and long-term interest rates. Net interest income (FTE) decreased during the third quarter of 2007 by \$4.6 million or 9.2% from the same period in 2006 to \$45.6 million, mainly due to lower average earning assets (down \$221 million) and higher rates paid on interest-bearing liabilities (up 40 basis points or "bp"), partially offset by higher yields on earning assets (up 9 bp).

Comparing the first nine months of 2007 with the same period of 2006, net interest income (FTE) decreased \$17.1 million or 11.0%, primarily due to lower average earning assets (down \$270 million) and higher rates paid on interest-bearing liabilities (up 51 bp), partially offset by higher yields on earning assets (up 10 bp) and lower average balances of interest-bearing liabilities (down \$199 million).

The Company's asset and liability position remains slightly "liability sensitive," with a greater amount of interest-bearing liabilities subject to immediate and near-term interest rate changes relative to earning assets. As a result, the recent reduction in the federal funds target rate (charged for short-term inter-bank borrowings) and the related decline in U.S. Treasury bill

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

rates should lower the Company's cost of funds at a more rapid pace than its earning asset yields.

Interest and Fee Income

Interest and fee income (FTE) for the third quarter of 2007 decreased \$2.5 million or 3.7% from the same period in 2006. The decrease was caused primarily by lower average earning assets (down \$221 million), partially offset by higher yields on average earning assets (up 9 bp).

The average earning asset decrease of \$221 million in the third quarter of 2007 compared with the same period in 2006 was substantially attributable to a \$180 million decline in the investment portfolio: mortgage backed securities and collateralized mortgage obligations (down \$122 million), municipal securities (down \$33 million), corporate and other securities (down \$16 million) and U.S. government sponsored entity obligations (down \$9 million). Average total loans were lower by \$41 million in the third quarter of 2007 compared with the same period in 2006 due to decreases in average balances of commercial real estate loans (down \$43 million), commercial loans (down \$42 million) and residential real estate loans (down \$22 million) partially offset by increases in average balances of indirect automobile loans (up \$63 million) and construction loans (up \$14 million).

The average yield on the Company's earning assets increased from 6.05% in the third quarter of 2006 to 6.14% in the same period in 2007. The composite yield on loans rose 7 bp to 6.68% due to increases in rates earned on consumer loans (up 22 bp), residential real estate loans (up 10 bp) and taxable commercial loans (up 15 bp), partially offset by decreases in yields on tax-exempt commercial loans (down 11 bp) and commercial real estate loans (down 2 bp). The investment portfolio yield increased 4 bp to 5.32%, mainly caused by increases in the yield on US. Government sponsored entity obligations (up 19 bp) and mortgage backed securities and collateralized mortgage obligations (up 6 bp), partially offset by declines in municipal securities (down 9 bp) and corporate and other securities (down 4 bp). The decline in the yield on municipal securities was attributable to yields on maturities, calls and serial payments exceeding yields on securities purchased.

Comparing the first nine months of 2007 with the corresponding period a year ago, interest and fee income (FTE) was down \$8.9 million or 4.4%. The decrease largely resulted from a lower volume of earning assets, partially offset by higher earning asset yields.

Average earning assets decreased \$270 million or 6.0% for the first nine months of 2007 compared with the same period of 2006. Investments declined \$201 million due to decreases in average balances of mortgage backed securities and collateralized mortgage obligations (down \$128 million), municipal securities (down \$34 million), corporate and other securities (down \$20 million) and U.S. government sponsored entity obligations (down \$18 million). A \$70 million decline in the average balance of the loan portfolio was attributable to decreases in average balances of commercial loans (down \$53 million), commercial real estate loans (down \$32 million), residential real estate loans (down \$14 million) and consumer credit lines (down \$11 million), partially offset by a \$41 million increase in the average balance of indirect automobile loans.

Page 13

The average yield on earning assets for the first three quarters of 2007 was 6.12% compared with 6.02% in the corresponding period of 2006. The loan portfolio yield for the first nine months of 2007 compared with the same period of 2006 was higher by 8 bp, due to increases in yields on consumer loans (up 38

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

bp), construction loans (up 93 bp), taxable commercial loans (up 22 bp) and residential real estate loans (up 11 bp), partially offset by decreases in yields on commercial real estate loans (down 11 bp) and tax-exempt commercial loans (down 6 bp). The investment portfolio yield rose by 7 bp. The increase resulted mostly from higher yields on corporate and other securities (up 40 bp) and U.S. government sponsored entity obligations (up 21 bp), partially offset by a 6 bp decrease in the yield on municipal securities.

Interest Expense

Interest expense in the third quarter of 2007 increased \$2.2 million or 12.7% compared with the same period in 2006. The increase was attributable to higher rates paid on the interest-bearing liabilities, partially offset by lower average balances of interest-bearing deposits.

The average rate paid on interest-bearing liabilities increased from 2.20% in the third quarter of 2006 to 2.60% in the same quarter of 2007. Rates paid on most interest-bearing liabilities moved with general market conditions. Rates on deposits increased 32 bp to 1.88% primarily due to increases in rates paid on preferred money market savings (up 165 bp), non-public CDs over \$100 thousand (up 53 bp) and CDs less than \$100 thousand (up 45 bp), partially offset by a 9 bp decline in public CDs. Rates on short-term borrowings also increased 36 bp mostly due to higher rates on line of credit and repurchase facilities (up 70 bp), partially offset by a 10 bp decline in the federal funds rate. The Federal Reserve reduced the target rate for federal funds by 50 bp in September 2007.

Interest-bearing liabilities declined \$140 million or 4.6% for the third quarter of 2007 over the same period of 2006. Interest-bearing deposits decreased \$187 million or 8.2% primarily due to decreases in money market savings (down \$134 million), regular savings (down \$47 million), money market checking accounts (down \$36 million), non-public CDs over \$100 thousand (down \$24 million) and CDs less than \$100 thousand (down \$27 million). The decline was partially offset by increases in preferred money market savings (up \$48 million) and public CDs (up \$34 million).

Comparing the first nine months of 2007 to the corresponding period of 2007, interest expense rose \$8.3 million or 17.3%, due to higher rates paid on interest-bearing liabilities, partially offset by a decline in such liabilities.

Rates paid on liabilities averaged 2.54% during the first nine months of 2007 compared with 2.03% for the first nine months of 2006. The average rate paid on short-term borrowings rose 52 bp mainly due to higher rates on federal funds (up 36 bp) and line of credit and repurchase facilities (up 68 bp). Rates on interest-bearing deposits were also higher by 43 bp largely due to preferred money market savings (up 197 bp), non-public CDs over \$100 thousand (up 80 bp), public CDs (up 38 bp) and CDs less than \$100 thousand (up 68 bp).

Interest-bearing liabilities during the first nine months of 2007 declined \$199 million or 6.4% over the same period of 2006 mainly due to decreases in money market savings (down \$142 million), money market checking accounts (down \$49 million), regular savings (down \$46 million), non-public CDs over \$100 thousand (down \$32 million) and CDs less than \$100 thousand (down \$31 million). The decline was partially offset by increases in preferred money market savings (up \$45 million) and public CDs (up \$27 million). Short-term borrowings rose \$29 million due to an \$87 million increase in federal funds purchased, partially offset by declines in line of credit and repurchase facilities (down \$41 million) and sweep accounts (down 16 million).

In all periods, the Company has focused its sales efforts on building the balances of more profitable, noninterest bearing and lower-cost transaction

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

accounts in order to minimize the cost of funds.

Net Interest Margin (FTE)

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

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Yield on earning assets	6.14%	6.05%	6.12%	6.02%
Rate paid on interest-bearing liabilities	2.60%	2.20%	2.54%	2.03%
Net interest spread	3.54%	3.85%	3.58%	3.99%
Impact of all other net noninterest bearing funds	0.80%	0.69%	0.79%	0.62%
Net interest margin	4.34%	4.54%	4.37%	4.61%

During the third quarter of 2007, the net interest margin declined 20 bp compared with the same period in 2006. Rates paid on interest-bearing liabilities climbed faster than yields on earning assets, resulting in a 31 bp decline in net interest spread. The decline in the net interest spread was partially mitigated by the higher net interest margin contribution of noninterest bearing funding sources. The margin contribution of noninterest bearing funds increased 11 bp because of the higher market rates of interest at which they could be invested.

Page 14

The net interest margin in the first nine months of 2007 declined by 24 bp when compared with the corresponding period of 2006. Earning asset yields increased 10 bp while the cost of interest-bearing liabilities rose by 51 bp, resulting in a 41 bp decrease in the net interest spread. Noninterest bearing funding sources contributed an increase of 17 bp to the net interest margin.

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).

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

	For the three months end September 30, 2007	
	Average Balance	Interest Income/ Expense
Assets:		
Money market assets and funds sold	\$706	\$2
Investment securities:		
Available for sale		
Taxable	359,233	3,902
Tax-exempt (1)	231,516	4,108
Held to maturity		
Taxable	525,766	5,712
Tax-exempt (1)	566,953	8,674
Loans:		
Commercial:		
Taxable	317,997	7,042
Tax-exempt (1)	222,555	3,564
Commercial real estate	871,225	15,602
Real estate construction	84,938	2,113
Real estate residential	487,573	5,792
Consumer	530,397	8,197
	-----	-----
Total loans (1)	2,514,685	42,310
	-----	-----
Total earning assets (1)	4,198,859	64,708
Other assets	429,869	
	-----	-----
Total assets	\$4,628,728	
	=====	
Liabilities and shareholders' equity		
Deposits:		
Noninterest bearing demand	\$1,254,530	\$--
Savings and interest-bearing transaction	1,376,769	2,175
Time less than \$100,000	207,376	1,755
Time \$100,000 or more	519,488	6,036
	-----	-----
Total interest-bearing deposits	2,103,633	9,966
Short-term borrowed funds	764,992	8,601
Debt financing and notes payable	36,832	578
	-----	-----
Total interest-bearing liabilities	2,905,457	19,145
Other liabilities	66,725	
Shareholders' equity	402,016	
	-----	-----
Total liabilities and shareholders' equity	\$4,628,728	
	=====	
Net interest spread (1) (2)		
Net interest income and interest margin (1) (3)		\$45,563
		=====

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

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

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

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

Page 15

	For the three months ended September 30, 2006	
	Average Balance	Interest Income/ Expense
Assets:		
Money market assets and funds sold	\$966	\$1
Investment securities:		
Available for sale		
Taxable	385,478	4,099
Tax-exempt (1)	251,143	4,571
Held to maturity		
Taxable	646,991	6,973
Tax-exempt (1)	579,559	8,954
Loans:		
Commercial:		
Taxable	343,958	7,487
Tax-exempt (1)	238,849	3,889
Commercial real estate	913,919	16,396
Real estate construction	71,372	1,774
Real estate residential	509,252	5,916
Consumer	478,122	7,126
	-----	-----
Total loans (1)	2,555,472	42,588
	-----	-----
Total earning assets (1)	4,419,609	67,186
Other assets	426,677	
	-----	-----
Total assets	\$4,846,286	
	=====	
Liabilities and shareholders' equity		
Deposits:		
Noninterest bearing demand	\$1,311,786	\$--
Savings and interest-bearing transaction	1,546,392	1,603
Time less than \$100,000	234,647	1,722
Time \$100,000 or more	509,741	5,686
	-----	-----
Total interest-bearing deposits	2,290,780	9,011
Short-term borrowed funds	717,524	7,399
Debt financing and notes payable	36,978	578
	-----	-----
Total interest-bearing liabilities	3,045,282	16,988
Other liabilities	66,483	
Shareholders' equity	422,735	
	-----	-----
Total liabilities and shareholders' equity	\$4,846,286	

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Net interest spread (1) (2)

Net interest income and interest margin (1) (3)

\$50,198

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

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

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

Page 16

	For the nine months ended September 30, 2007	
	Average Balance	Interest income/ expense
Assets:		
Money market assets and funds sold	\$622	\$5
Investment securities:		
Available for sale		
Taxable	367,693	11,891
Tax-exempt (1)	234,316	12,811
Held to maturity		
Taxable	553,471	17,966
Tax-exempt (1)	570,569	26,290
Loans:		
Commercial:		
Taxable	318,827	20,639
Tax-exempt (1)	227,611	10,938
Commercial real estate	885,172	47,341
Real estate construction	76,340	5,718
Real estate residential	495,766	17,629
Consumer	513,223	23,380
Total loans (1)	2,516,939	125,645
Total earning assets (1)	4,243,610	194,608
Other assets	426,409	
Total assets	\$4,670,019	
Liabilities and shareholders' equity		
Deposits:		
Noninterest bearing demand	\$1,264,147	\$--
Savings and interest-bearing transaction	1,410,389	6,086
Time less than \$100,000	212,666	5,241
Time \$100,000 or more	500,389	17,396

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Total interest-bearing deposits	2,123,444	28,723
Short-term borrowed funds	770,378	25,614
Debt financing and notes payable	36,868	1,735
<hr/>		
Total interest-bearing liabilities	2,930,690	56,072
Other liabilities	66,685	
Shareholders' equity	408,497	
<hr/>		
Total liabilities and shareholders' equity	\$4,670,019	
<hr/>		
Net interest spread (1) (2)		
Net interest income and interest margin (1) (3)		\$138,536
<hr/>		

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

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

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

Page 17

	For the nine months ended September 30, 2006	
	Average Balance	Interest Income/ Expense
<hr/>		
Assets:		
Money market assets and funds sold	\$878	\$3
Investment securities:		
Available for sale		
Taxable	398,065	12,730
Tax-exempt (1)	252,853	13,974
Held to maturity		
Taxable	691,468	22,211
Tax-exempt (1)	584,027	26,980
Loans:		
Commercial:		
Taxable	352,747	22,243
Tax-exempt (1)	246,450	11,963
Commercial real estate	917,044	49,800
Real estate construction	75,624	5,136
Real estate residential	509,936	17,709
Consumer	484,746	20,711
<hr/>		
Total loans (1)	2,586,547	127,562
<hr/>		
Total earning assets (1)	4,513,838	203,460
Other assets	435,823	

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Total assets	\$4,949,661	
<hr/>		
Liabilities and shareholders' equity		
Deposits:		
Noninterest bearing demand	\$1,328,071	\$--
Savings and interest-bearing transaction	1,602,949	4,280
Time less than \$100,000	243,814	4,763
Time \$100,000 or more	504,843	15,222
<hr/>		
Total interest-bearing deposits	2,351,606	24,265
Short-term borrowed funds	740,923	21,766
Debt financing and notes payable	37,372	1,754
<hr/>		
Total interest-bearing liabilities	3,129,901	47,785
Other liabilities	67,500	
Shareholders' equity	424,189	
<hr/>		
Total liabilities and shareholders' equity	\$4,949,661	
<hr/>		
Net interest spread (1) (2)		
Net interest income and interest margin (1) (3)		\$155,675
<hr/>		

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

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

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

Page 18

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 September compared with three months ended September 30, 20	
	-----	-----
	Volume	Rate

Interest and fee income:		
Money market assets and funds sold	\$0	\$1
Investment securities:		
Available for sale		

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Taxable	(307)	110
Tax-exempt (1)	(350)	(113)
Held to maturity		
Taxable	(1,369)	108
Tax-exempt (1)	(193)	(87)
Loans:		
Commercial:		
Taxable	(573)	128
Tax-exempt (1)	(262)	(63)
Commercial real estate	(765)	(29)
Real estate construction	337	2
Real estate residential	(257)	133
Consumer	801	270
	-----	-----
Total loans (1)	(719)	441
Total (decrease) increase in interest and fee income (1)	----- (2,938)	----- 460
	-----	-----
Interest expense:		
Deposits:		
Savings and interest-bearing transaction	(192)	764
Time less than \$100,000	(213)	246
Time \$100,000 or more	110	240
	-----	-----
Total interest-bearing deposits	(295)	1,250
	-----	-----
Short-term borrowed funds	508	694
Debt financing and notes payable	(2)	2
	-----	-----
Total (decrease) increase in interest expense	211	1,946
	-----	-----
Decrease in Net Interest Income (1)	----- (\$3,149)	----- (\$1,486)
	=====	=====

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

Page 19

	Nine months ended September compared with nine mo ended September 30, 2	
	Volume	Rate
	-----	-----
Interest and fee income:		
Money market assets and funds sold	(\$1)	\$3
Investment securities:		
Available for sale		
Taxable	(949)	110
Tax-exempt (1)	(1,015)	(148)
Held to maturity		
Taxable	(4,419)	174
Tax-exempt (1)	(620)	(70)

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Loans:

Commercial:		
Taxable	(2,183)	579
Tax-exempt (1)	(906)	(119)
Commercial real estate	(1,713)	(746)
Real estate construction	49	533
Real estate residential	(497)	417
Consumer	1,255	1,414
	-----	-----
Total loans (1)	(3,995)	2,078
Total (decrease) increase in interest and fee income (1)	(10,999)	2,147
	-----	-----
Interest expense:		
Deposits:		
Savings and interest-bearing transaction	(566)	2,372
Time less than \$100,000	(661)	1,139
Time \$100,000 or more	(135)	2,309
	-----	-----
Total interest-bearing deposits	(1,362)	5,820
	-----	-----
Short-term borrowed funds	892	2,956
Debt financing and notes payable	(24)	5
	-----	-----
Total (decrease) increase in interest expense	(494)	8,781
	-----	-----
Decrease in Net Interest Income (1)	(\$10,505)	(\$6,634)
	=====	=====

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

Page 20

Provision for Credit Losses

The level of the provision for credit losses during each of the periods presented reflects the Company's continued efforts to manage credit costs by enforcing underwriting and administration procedures and aggressively pursuing collection efforts with troubled debtors. The Company provided \$75 thousand for credit losses in the third quarter of 2007, unchanged from the third quarter of 2006. For the first nine months of 2007 and 2006, \$225 thousand and \$375 thousand were provided in each respective period. The provision reflects Management's assessment of credit risk in the loan portfolio and the level of the allowance for loan losses for each of the periods presented. For further information regarding net credit losses and the allowance for credit losses, see the "Classified Assets" section of this report.

Noninterest Income

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

Three months ended September 30,	Nine months September
-------------------------------------	--------------------------

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

	2007	2006	2007
Service charges on deposit accounts	\$7,569	\$7,155	\$22,813
Merchant credit card fees	2,808	2,430	8,024
Debit card fees	969	883	2,825
ATM fees and interchange	723	753	2,114
Other service fees	506	510	1,496
Financial services commissions	383	377	1,057
Trust fees	337	298	978
Official check sales income	279	358	904
Mortgage banking income	29	36	92
Life insurance gains	--	--	822
Other noninterest income	1,041	1,099	3,496
Total	\$14,644	\$13,899	\$44,621

Noninterest income for the third quarter of 2007 increased by \$745 thousand or 5.4% from the same period in 2006. Service charges on deposit accounts increased due to Management efforts to increase deposit accounts and minimize service charge waivers. Such charge income rose \$414 thousand or 5.8% mainly due to a \$448 thousand increase in overdraft fees, partially offset by a decline in fees charged on retail and business checking accounts. Merchant credit card fees increased \$378 thousand or 15.6%.

In the first nine months of 2007, noninterest income increased \$3.0 million or 7.3% compared with the same period of the previous year primarily due to higher service charges on deposit accounts and \$822 thousand in life insurance proceeds. Service charges on deposit accounts increased \$1.4 million or 6.5% mainly due to a \$1.8 million increase in overdraft fees due to marketing initiatives, partially offset by declines in fees charged on retail and business checking accounts (down \$236 thousand) and deficit fees charged on analyzed accounts (down \$167 thousand). Merchant credit card fees increased \$816 thousand or 11.3%. Debit card fees increased \$238 thousand or 9.2% mainly due to increased usage. Trust fees increased \$111 thousand or 12.8%. Official check sales income declined \$160 thousand or 15.0% mostly due to lower average investable balances. Other noninterest income decreased \$190 thousand or 5.2% due to a \$239 thousand gain on sale of a vacated branch facility in 2006.

Noninterest Expense

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

	Three months ended September 30,		Nine months September
	2007	2006	2007
Salaries and related benefits	\$12,587	\$13,080	\$37,776
Occupancy	3,327	3,321	9,960
Data processing services	1,800	1,503	4,866
Equipment	1,083	1,194	3,367
Amortization of deposit intangibles	893	1,016	2,760

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Courier service	854	904	2,559
Professional fees	451	532	1,355
Postage	404	410	1,211
Telephone	342	371	1,055
Stationery and supplies	323	307	906
Customer checks	228	247	704
Operational losses	228	129	559
Correspondent Service Charges	223	212	668
Loan expense	217	253	555
Advertising/public relations	150	197	641
Other noninterest expense	1,743	1,727	5,280

Total	\$24,853	\$25,403	\$74,222
	=====		
Average full time equivalent staff	876	901	893
Noninterest expense to revenues (FTE)	41.28%	39.63%	40.52%

Page 21

Noninterest expense decreased \$550 thousand or 2.2% in the three months ended September 30, 2007 compared with the same period in 2006. Salaries and related benefits decreased \$493 thousand or 3.8%, mainly due to declines in stock based compensation (down \$195 thousand), workers compensation (down \$121 thousand) and salaries, partially offset by higher incentives. Amortization of deposit intangibles decreased \$123 thousand or 12.1%. Equipment expense declined \$111 thousand or 9.3% primarily due to lower repair, maintenance and depreciation expenses. Data processing services increased \$297 thousand or 19.8%. The higher data processing expenses and a portion of the lower personnel costs were due to conversion of the Company's item processing function to an outside vendor. During the third quarter 2007, the Company installed new imaging technology under contract with an outside vendor to improve its item processing function (which converts daily transactions from paper to electronic format in preparation for data processing). The Company previously operated this function in-house; all affected employees were offered and accepted positions with the outside vendor. As a result, the Company's employee compensation, equipment and other expenses declined while data processing costs paid to outside vendors rose. Based on Management's projections this conversion of the Company's item processing function will not change its expenses in the aggregate.

In the first nine months of 2007, noninterest expense declined \$3.0 million or 3.9% compared with the corresponding period of 2006. Salaries and related benefits declined \$2.1 million or 5.3% mostly due to a \$292 thousand decrease in regular salary as a result of fewer employees, partially offset by annual merit increases, and declines in stock based compensation (down \$530 thousand), workers compensation (down \$464 thousand) and incentives and bonuses (down \$272 thousand). Professional fees decreased \$468 thousand or 25.6% mainly due to lower legal fees (down \$398 thousand). Equipment expense declined \$408 thousand or 10.8% primarily due to lower repair, maintenance and depreciation expenses. Amortization of deposit intangibles decreased \$311 thousand or 10.1%. Telephone expense declined \$214 thousand or 16.8% largely due to lower rates contained in a new vendor contract. Courier service expense decreased \$177 thousand or 6.5%. Loan expense fell \$128 thousand or 18.8% largely due to lower repossession and other expenses. Declines were partially offset by increases in other noninterest, data processing service and occupancy expenses. Other noninterest expense rose \$380 thousand or 7.8% mostly due to increases in expenses for travel, employee recruiting, internet banking, and amortization of low-income housing investments as tax benefits are realized. Data processing

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

services increased \$298 thousand or 6.5%. The higher data processing expenses and a portion of the lower personnel costs were due to conversion of the Company's item processing function to an outside vendor. Occupancy expense increased \$140 thousand or 1.4% primarily due to increases in building insurance and maintenance costs and higher rent, net of sublease income, partly offset by lower depreciation charges.

Provision for Income Tax

During the third quarter of 2007, the Company recorded income tax expense (FTE) of \$13.3 million, \$1.1 million or 7.8% lower than the third quarter of 2006. The current quarter provision represents an effective tax rate (FTE) of 37.6%, compared with 37.2% for the third quarter of 2006. The third quarter 2007 tax provision reflected adjustments to estimates for permanent book to tax differences. The tax provision for both the third quarter 2007 and third quarter 2006 included adjustments for book estimates to the filed Federal tax returns for the respective prior years. On a year-to-date basis, the income tax provision (FTE) was \$40.8 million for 2007 compared with \$44.8 million for 2006. The effective tax rate (FTE) of 37.5% for the first nine months of 2007 is unchanged from the same period of 2006.

Classified Assets

The Company closely monitors the markets in which it conducts its lending operations and continues its strategy to control exposure to loans with high credit risk and to increase diversification of the loan portfolio. 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 appraised value less disposal cost.

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

	At September 30,		-----Deco
	2007	2006	
Classified loans	\$21,403	\$24,111	
Other real estate owned	613	656	
Classified loans and other real estate owned	\$22,016	\$24,767	
Allowance for loan losses / classified loans	247%	230%	

Classified loans include loans graded "substandard", "doubtful" and "loss" in accordance with regulatory guidelines. At September 30, 2007, \$21.0 million of loans or 98.2% of total classified loans are graded "substandard". Such substandard loans accounted for 0.84% of total gross loans at September 30, 2007. Classified loans at September 30, 2007, decreased \$2.7 million or 11.2% from a year ago primarily due to seven loan payoffs, four loan upgrades and two chargeoffs, partially offset by 12 loan downgrades. Classified loans at September 30, 2007, declined \$1.2 million or 6.1% from December 31, 2006 mostly

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

due to four loan payoffs, four loan upgrades and two chargeoffs, partially offset by 11 loan downgrades totaling \$6.2 million.

Other real estate owned was \$613 thousand, \$647 thousand and \$656 thousand at September 30, 2007, December 31, 2006 and September 30, 2006, respectively, representing one property. The reduction in the property's carrying value resulted from a reduction in the carrying value based on updated appraisals, with an offsetting charge to earnings.

Page 22

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 September 30, ----- 2007	2006	At ----- December 31, 2006
Performing nonaccrual loans	\$1,695	\$3,889	\$4,404
Nonperforming, nonaccrual loans	3,132	1,162	61
Total nonaccrual loans	4,827	5,051	4,465
Loans 90 days past due and still accruing	251	252	65
Total nonperforming loans	5,078	5,303	4,530
Other real estate owned	613	656	647
Total	\$5,691	\$5,959	\$5,177
=====			
As a percentage of total loans	0.23%	0.23%	0.20%

Nonaccrual loans increased \$362 thousand during the nine months ended September 30, 2007. Eighteen loans comprised the \$4.8 million nonaccrual loans as of

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

September 30, 2007. Six of those loans were on nonaccrual status throughout the first nine months of 2007, while the remaining twelve loans were placed on nonaccrual status during the nine months ended September 30, 2007. The Company actively pursues full collection of nonaccrual loans.

The Company's residential real estate loan underwriting standards for first mortgages limit the loan amount to no more than 80 percent of the appraised value of the property serving as collateral for the loan, and require verification of income of the borrower(s). The Company had no "sub-prime" loans as of September 30, 2007, December 31, 2006 and September 30, 2006. Of the loans 90 days past due and still accruing at September 30, 2007, \$-0- and \$207 thousand were residential real estate loans and automobile loans, respectively. Delinquent consumer loans on accrual status were as follows (\$ in thousands):

	At September 30,	
	2007	2006
Residential real estate loans:		

30-89 days delinquent:		
Dollar amount	\$89	\$323
Percentage of total residential real estate loans	0.02%	0.06%
90 or more days delinquent:		
Dollar amount	\$-0-	\$-0-
Percentage of total residential real estate loans	0.00%	0.00%
Automobile loans:		

30-89 days delinquent:		
Dollar amount	\$2,692	\$1,952
Percentage of total automobile loans	0.57%	0.48%
90 or more days delinquent:		
Dollar amount	\$207	\$134
Percentage of total automobile loans	0.04%	0.03%

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

The amount of gross interest income that would have been recorded for nonaccrual loans for the three and nine month periods ended September 30, 2007, if all such loans had performed in accordance with their original terms, was \$107 thousand and \$326 thousand, respectively, compared with \$122 thousand and \$384 thousand, respectively, for the third quarter and the first three quarters of 2006.

The amount of interest income that was recognized on nonaccrual loans from all cash payments, including those related to interest owed from prior years, made during the three and nine months ended September 30, 2007, totaled \$130 thousand and \$399 thousand, respectively, compared with \$164 thousand and \$316 thousand, respectively, for the comparable periods in 2006. These cash payments represent annualized yields of 10.36% and 11.02%, respectively, for the third quarter and the first nine months of 2007 compared to 12.25% and 7.21%, respectively, for the third quarter and the first nine months of 2006.

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Page 23

Total cash payments received during the third quarter and first nine months of 2007 which were applied against the book balance of nonaccrual loans outstanding at September 30, 2007, totaled \$-0- thousand and approximately \$5 thousand, respectively. Total cash payments received during the third quarter and first nine months of 2006 which were applied against the book balance of nonaccrual loans outstanding at September 30, 2006, totaled approximately \$3 thousand and \$50 thousand, respectively.

Management believes the overall credit quality of the loan portfolio is stable; however, nonperforming assets could fluctuate from period to period. The performance of any individual loan can be affected 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 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 September 30,		Nine months September
	2007	2006	2007
Balance, beginning of period	\$57,166	\$59,372	\$59,023
Credit loss provision	75	75	225
Loans charged off	(1,031)	(1,011)	(4,519)
Recoveries of previously charged off loans	421	590	1,902
Net credit losses	(610)	(421)	(2,617)
Balance, end of period	\$56,631	\$59,026	\$56,631
Components:			
Allowance for loan losses	\$52,938	\$55,338	\$52,938
Reserve for unfunded credit commitments	3,693	3,688	3,693
Allowance for credit losses	\$56,631	\$59,026	\$56,631
Allowance for loan losses / loans outstanding	2.11%	2.18%	

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 loans whose full collectibility is

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

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 independent 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 non-criticized and classified commercial loans and residential real estate loans based on historical loss rates, agriculture commodity prices, and levels of government funding. The remainder of the allowance is considered to be unallocated. The unallocated allowance is established to provide for probable losses that have been incurred as of the reporting date but not reflected in the allocated allowance. It addresses additional qualitative factors consistent with Management's analysis of the level of risks inherent in the loan portfolio, which are related to the risks of the Company's general lending activity. Included in the unallocated allowance is the risk of losses that are attributable to national or local economic or industry trends which have occurred but have yet been recognized in past loan charge-off history (external factors). The external factors evaluated by the Company include: economic and business conditions, external competitive issues, and other factors. Also included in the unallocated allowance is the risk of losses attributable to general attributes of the Company's loan portfolio and credit administration (internal factors). The internal factors evaluated by the Company include: loan review system, adequacy of lending Management and staff, loan policies and procedures, problem loan trends, concentrations of credit, and other factors. By their nature, these risks are not readily allocable to any specific loan category in a statistically meaningful manner and are difficult to quantify with a specific number. Management assigns a range of estimated risk to the qualitative risk factors described above based on Management's judgment as to the level of risk, and assigns a quantitative risk factor from the range of loss estimates to determine the appropriate level of the unallocated portion of the allowance.

Page 24

The following table presents the allocation of the allowance for credit losses:

Allocation of the Allowance for Credit Losses

At September 30,	2007		2006	
(dollars in thousands)	Allocation of the Allowance Balance	Loans as Percent of Total Loans	Allocation of the Allowance Balance	Loans as Percent of Total Loans
Commercial	\$26,609	56%	\$24,742	58%
Real estate construction	4,647	4%	4,064	3%
Real estate residential	388	19%	1,228	20%
Consumer	4,247	21%	5,095	19%
Unallocated portion	20,740	--	23,897	--
Total	\$56,631	100%	\$59,026	100%

=====

The allocation to loan portfolio segments changed from September 30, 2006 to September 30, 2007. The increase in allocation for commercial loans reflects an increase in loans "criticized" under regulatory risk grading guidelines. Such loans are not yet "classified" at higher risk levels, but receive a higher level of credit management attention due to their increased risk profile. The increase in allocation to real estate construction loans reflects an increase in criticized construction loans outstanding. The reduced allocations for residential real estate and consumer loans reflects refinements to the statistical model used to apply historical loss rates to delinquent loan volumes.

At September 30, 2006 and September 30, 2007, Management's evaluations of the unallocated portion of the allowance for credit losses attributed significant risk levels to developing economic and business conditions (\$4.3 million and \$4.4 million, respectively), external competitive issues (\$2.2 million and \$2.3 million, respectively), and adequacy of lending Management and staff (\$5.2 million and \$5.0 million, respectively). Based on Management's analysis and judgment, the amount of the unallocated portion of the allowance for credit losses was \$23.9 million at September 30, 2006, compared to \$20.7 million at September 30, 2007.

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 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.

The rise in short-term interest rates during the last three years affected the volume of lower-costing deposit products, placing more reliance on higher-cost certificates of deposit and wholesale funding. Competitive loan pricing and loosened underwriting standards in the banking industry have limited the opportunity to originate commercial loans that will remain profitable throughout the duration of the loans, in Management's opinion. Recent interest rate spreads between loan origination yields and the rates paid on deposits and other funding sources have been very narrow. As a result, the Company has not taken an aggressive posture relative to current loan growth. The interest rate spread has also been very narrow in regard to bond investments. As such, Westamerica has not been making significant additional investments in bonds over the past several years other than continuing investments for collateral requirements and Community Reinvestment Act purposes.

The Company's asset and liability position remains slightly "liability sensitive," with a greater amount of interest-bearing liabilities subject to immediate and near-term interest rate changes relative to earning assets. As a result, the recent reduction in the federal funds target rate (charged for short-term inter-bank borrowings) and the related decline in U.S. Treasury bill rates should improve the Company's net interest margin during the fourth quarter 2007. The lower short-term interest rates should lower the Company's

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

cost of funds at a more rapid pace than its earning asset yields. The duration of the Company's earning assets and funding has not changed by a meaningful amount during the first nine months of 2007. Management continues to monitor the interest rate environment as well as economic conditions and other factors it deems relevant in managing the Company's exposure to interest rate risk.

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

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. The Company's most likely earnings plan is currently based on monetary policy easing by the Federal Reserve in 2007. This earnings plan would be negatively impacted if, to the contrary, monetary policy was tightened in 2007.

Page 25

Assuming a decrease of 100 bp in the federal funds rate and a corresponding decline of 30 bp in the 10 year Constant Maturity Treasury Bond yield during the same period, earnings are estimated to improve approximately 1.2% over the Company's most likely net income plan over the twelve months ending September 30, 2008. Conversely, assuming a 100 bp increase in the federal funds rate and a corresponding increase of 65 bp in the 10-year Constant Maturity Treasury Bond yield during the same period, estimated earnings at risk would be approximately 3.0% of the Company's most likely net income plan over the twelve months ending September 30, 2008. Simulation estimates depend on, and will change with, the size and mix of the actual and projected balance sheet at the time of each simulation.

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

Liquidity

The Company's principal source of liquidity is investment securities available for sale and principal payments from consumer and other loans. At September 30, 2007, investment securities available for sale totaled \$570 million, representing a decrease of \$45.4 million from December 31, 2006. The decrease is primarily attributable to principal payments and maturities. At September 30, 2007, indirect automobile loans totaled \$476 million, which were experiencing stable monthly principal payments of approximately \$19 million. At September 30, 2007, \$508 million in collateralized mortgage obligations ("CMOs") and mortgage backed securities ("MBSs") were held in the Company's investment portfolios. None of the CMOs or MBSs are backed by sub-prime mortgages. The CMOs and MBSs have been experiencing stable principal paydowns of approximately \$11 million per month during the last twelve months. In addition, at September 30, 2007, the Company had customary lines for overnight borrowings from other financial institutions in excess of \$700 million and a \$35 million line of credit, under which \$22.8 million was outstanding. Additionally, as a member of the Federal Reserve System, the Company has access to borrowing from the Federal Reserve. The Company's short-term debt rating

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

from Fitch Ratings is F1. Management expects the Company can access short-term debt financing if desired. The Company's long-term debt rating from Fitch Ratings is A with a stable outlook. Management is confident the Company could access additional long-term debt financing if desired.

The Company generates significant liquidity from its operating activities. The Company's profitability during the first nine months of 2007 and 2006 contributed substantial operating cash flows of \$72.1 million and \$85.8 million, respectively. In 2007, operating activities and retained earnings from prior years provided cash for \$31.0 million in shareholder dividends and \$65.1 million utilized to repurchase common stock. In 2006, operating activities and retained earnings from prior years provided cash for \$68.7 million of Company stock repurchases, \$30.2 million in shareholder dividends and \$3.3 million for repayment of long term debt.

The Company's investing activities were also a net source of cash in the first nine months of 2007. Proceeds from maturing investment securities of \$157.5 million were only partially reinvested, for a net increase in cash of \$127.3 million. This cash inflow and a \$83.1 million increase in short-term borrowings offset a \$176.5 million decrease in customers' deposits. The Company's investing activities were also a net source of cash in the first nine months of 2006. Proceeds from maturing investment securities of \$177.6 million were only partially reinvested, for a net increase in cash of \$169.9 million. Other investing activities included net loan repayments of \$118.0 million. These cash inflows offset a \$295.0 million decrease in customers' deposits and a \$6.3 million reduction in short-term borrowings.

The Company anticipates maintaining its cash levels in 2007 mainly through profitability and retained earnings. It is anticipated that loan demand will be moderate during the remainder of 2007, although such demand will be dictated by economic and competitive conditions. The Company aggressively solicits non-interest bearing demand deposits and money market checking deposits, which are the least sensitive to interest rates. However, higher costing products, including money market savings and certificates of deposit, have been less stable throughout 2006 and the nine months ended September 30, 2007 due to rising short-term interest rates. The growth of deposit balances is subject to heightened competition, the success of the Company's sales efforts, delivery of superior customer service and market conditions. The September 18, 2007 reduction in the federal funds rate has resulted in declining short-term interest rates, which could impact deposit volumes in the future. Depending on economic conditions, interest rate levels, and a variety of other conditions, deposit growth may be used to fund loans, purchase investment securities or to reduce short-term borrowings. However, due to concerns regarding uncertainty in the general economic environment, competition, possible terrorist attacks and political uncertainty, loan demand and levels of customer deposits are not certain. Shareholder dividends and share repurchases are expected to continue subject to the Board's discretion and continuing evaluation of capital levels, earnings, asset quality, debt retirement and other factors.

Westamerica Bancorporation ("the Parent Company") is a separate entity and apart 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 declared for its shareholders, and interest and principal on outstanding debt. Substantially all of the Parent Company's revenues are obtained from subsidiary service fees and dividends. 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, returning excess capital to shareholders, and other ongoing requirements. These programs have been implemented to optimize the Company's use of equity capital and enhance shareholder value. Pursuant to these programs, the Company collectively repurchased 1.4 million shares each in the nine month period ended September 30, 2007 and 2006.

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 \$403.7 million at September 30, 2007, a decrease of \$25.1 million or 5.9% from a year ago, and a decrease of \$20.6 million or 4.9% from December 31, 2006. These decreases are reflective of the effect of common stock repurchases, dividends paid to shareholders and a change in unrealized gain(loss) on securities available for sale, offset by the generation of earnings and stock issuance in connection with employee stock option exercises. The Company's ratio of equity to total assets decreased to 8.67% at September 30, 2007, from 8.85% a year ago and 8.90% on December 31, 2006, because shareholders' equity decreased relatively more than total assets.

The following summarizes the ratios of capital to risk-adjusted assets for the Company on the date indicated:

	At September 30,		At	Minimum	Well-capitalized
	2007	2006	December 31,	Regulatory	by
			2006	Requirement	Regulatory
					Definition
Tier I Capital	9.38%	9.70%	9.77%	4.00%	6.00%
Total Capital	10.69%	11.02%	11.09%	8.00%	10.00%
Leverage ratio	6.31%	6.39%	6.42%	4.00%	5.00%

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

The following summarizes the ratios of capital to risk-adjusted assets for the Bank on the date indicated:

	At September 30,		At	Minimum	Well-capitalized
	2007	2006	December 31,	Regulatory	by
			2006	Requirement	Regulatory
					Definition

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Tier I Capital	9.60%	9.83%	9.88%	4.00%	6.00%
Total Capital	11.06%	11.28%	11.34%	8.00%	10.00%
Leverage ratio	6.42%	6.44%	6.46%	4.00%	5.00%

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

Capital ratios are reviewed by Management on a regular basis to ensure that capital exceeds the prescribed regulatory minimums and is adequate to meet the Company's and the Bank's anticipated future needs. All ratios as shown in the tables 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 undertaken 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 September 30, 2007. Based upon their evaluation, the principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective. The evaluation did not identify any change in the Company's internal control over financial reporting that occurred during the quarter ended September 30, 2007 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Page 27

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; generally such actions are of a routine nature and arise in the normal course of business of the Subsidiary Bank. The Bank is not a party to any pending or threatened legal action that, if determined adversely to the Bank, is likely in Management's opinion to have a material adverse effect on the Bank's financial condition or results of operations.

Item 1A. Risk Factors

There are no material changes to the risk factors disclosed in the Company's

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

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

(a) None

(b) None

(c) Issuer Purchases of Equity Securities

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

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs*	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 through July 31	232	\$42.06	232	344
August 1 through August 31	191	44.64	191	1,933
September 1 through September 30	69	48.01	69	1,864
Total	492	\$43.90	492	1,864

* Includes 17 thousand, 23 thousand and 12 thousand shares purchased in July, August and September, 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 third quarter of 2007 pursuant to a program approved by the Board of Directors on August 24, 2006 authorizing the purchase

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

of up to 2,000,000 shares of the Company's common stock from time to time prior to September 1, 2007. A replacement plan was approved by the Board of Directors on August 23, 2007 to repurchase up to 2,000,000 shares prior to September 1, 2008.

Item 3. Defaults upon Senior Securities

None

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

None

Item 5. Other Information

None

Page 28

Item 6. Exhibits

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

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

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

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

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

Page 29

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)

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

November 1, 2007

Date

/s/ JOHN "ROBERT" THORSON

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

Page 30

Exhibit Index

- Exhibit 31.1: Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a)
- Exhibit 31.2: Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a)
- Exhibit 32.1: Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- Exhibit 32.2: Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002