

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

WESTAMERICA BANCORPORATION

Form 10-Q

May 07, 2008

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 March 31, 2008

OR

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

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

Commission file number: 001-9383

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

CALIFORNIA  
(State or Other Jurisdiction of  
Incorporation or Organization)

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

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

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

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

Yes  No

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

Large Accelerated Filer  Accelerated Filer   
Non-Accelerated Filer

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

Yes  No

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

# Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

classes of common stock, as of the latest practicable date:

Title of Class	Shares Outstanding as of April 30, 2008
Common Stock, No Par Value	29,017,071

Page 2

## TABLE OF CONTENTS

	Page -----
Forward Looking Statements	2
PART I - FINANCIAL INFORMATION	
Item 1 - Financial Statements	3
Notes to Unaudited Condensed Consolidated Financial Statements	7
Financial Summary	13
Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations	14
Item 3 - Quantitative and Qualitative Disclosures about Market Risk	30
Item 4 - Controls and Procedures	30
PART II - OTHER INFORMATION	
Item 1 - Legal Proceedings	31
Item 1A - Risk Factors	31
Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds	31
Item 3 - Defaults upon Senior Securities	32
Item 4 - Submission of Matters to a Vote of Security Holders	32
Item 5 - Other Information	32
Item 6 - Exhibits	32
Signature	33
Exhibit Index	34
Exhibit 31.1 - Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a)	35
Exhibit 31.2 - Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a)	36
Exhibit 32.1 - Certification of Chief Executive Officer	37

# Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Required by 18 U.S.C. Section 1350

Exhibit 32.2 - Certification of Chief Financial Officer

38

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, 2007, 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 March 31,		At
	2008	2007	December 31, 2007
Assets:			
Cash and cash equivalents	\$139,621	\$208,413	\$209,764
Money market assets	336	321	333
Investment securities available for sale	477,686	602,220	532,821
Investment securities held to maturity,			

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

with market values of:			
\$1,029,937 at March 31, 2008	1,016,613		
\$1,142,426 at March 31, 2007		1,142,382	
\$1,049,422 at December 31, 2007			1,045,288
Loans, gross	2,448,320	2,519,898	2,502,976
Allowance for loan losses	(52,234)	(54,889)	(52,506)
Loans, net of allowance for loan losses	2,396,086	2,465,009	2,450,470
Other real estate owned	954	647	613
Premises and equipment, net	28,031	29,643	28,380
Identifiable intangibles	17,571	21,108	18,429
Goodwill	121,719	121,719	121,719
Interest receivable and other assets	143,685	157,367	151,142
Total Assets	\$4,342,302	\$4,748,829	\$4,558,959
Liabilities:			
Deposits:			
Noninterest bearing	\$1,202,165	\$1,293,920	\$1,245,500
Interest bearing:			
Transaction	542,468	584,026	544,411
Savings	749,471	851,800	760,006
Time	700,534	714,626	714,873
Total deposits	3,194,638	3,444,372	3,264,790
Short-term borrowed funds	635,264	776,781	798,599
Debt financing and notes payable	36,736	36,883	36,773
Liability for interest, taxes and other expenses	76,555	70,983	64,194
Total Liabilities	3,943,193	4,329,019	4,164,356
Shareholders' Equity:			
Authorized - 150,000 shares of common stock			
Issued and outstanding:			
28,772 at March 31, 2008	336,545		
30,158 at March 31, 2007		338,990	
29,018 at December 31, 2007			334,211
Deferred compensation	2,923	2,734	2,990
Accumulated other comprehensive (loss) income	(3,954)	3,593	(4,520)
Retained earnings	63,595	74,493	61,922
Total Shareholders' Equity	399,109	419,810	394,603
Total Liabilities and Shareholders' Equity	\$4,342,302	\$4,748,829	\$4,558,959

See accompanying notes to unaudited condensed consolidated financial statements.

Page 4

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

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

	Three months ended March 31,	
	2008	2007
<b>Interest Income:</b>		
Loans	\$38,732	\$40,167
Money market assets and funds sold	1	2
Investment securities available for sale		
Taxable	3,112	4,070
Tax-exempt	2,690	3,052
Investment securities held to maturity		
Taxable	5,183	6,268
Tax-exempt	5,676	5,815
<b>Total Interest Income</b>	<b>55,394</b>	<b>59,374</b>
<b>Interest Expense:</b>		
Transaction deposits	452	523
Savings deposits	1,330	1,409
Time deposits	5,546	7,305
Short-term borrowed funds	4,922	8,296
Notes payable	578	578
<b>Total Interest Expense</b>	<b>12,828</b>	<b>18,111</b>
<b>Net Interest Income</b>	<b>42,566</b>	<b>41,263</b>
<b>Provision for Loan Losses</b>	<b>600</b>	<b>75</b>
<b>Net Interest Income After Provision For Loan Losses</b>	<b>41,966</b>	<b>41,188</b>
<b>Noninterest Income:</b>		
Service charges on deposit accounts	7,296	7,528
Merchant credit card	2,580	2,449
Debit card	904	895
Trust fees	303	337
Financial services commissions	230	310
Other	2,367	2,936
Life insurance proceeds	0	822
Gain on sale of Visa common stock	5,698	0
<b>Total Noninterest Income</b>	<b>19,378</b>	<b>15,277</b>
<b>Noninterest Expense:</b>		
Salaries and related benefits	12,984	12,568
Occupancy	3,390	3,291
Data processing	2,120	1,524
Furniture and equipment	921	1,138
Amortization of identifiable intangibles	858	975
Courier service	829	848
Professional fees	536	495
Other	3,756	3,825
Visa litigation expense	(2,338)	0
<b>Total Noninterest Expense</b>	<b>23,056</b>	<b>24,664</b>
<b>Income Before Income Taxes</b>	<b>38,288</b>	<b>31,801</b>
<b>Provision for income taxes</b>	<b>11,510</b>	<b>8,231</b>

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Net Income	\$26,778	\$23,570
Average Shares Outstanding	28,861	30,342
Diluted Average Shares Outstanding	29,210	30,824
Per Share Data:		
Basic earnings	\$0.93	\$0.78
Diluted earnings	0.92	0.76
Dividends paid	0.34	0.34

See accompanying notes to unaudited condensed consolidated financial statements.

Page 5

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

	Shares	Common Stock	Deferred Compensation	Accumulated Compre- hensive Income (Loss)	R E
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 gain on securities available for sale				1,734	
Post-retirement benefit transition obligation amortization				9	
Total comprehensive income					
Exercise of stock options	58	2,122			
Stock option tax benefits		134			
Stock based compensation		474			
Stock awarded to employees	--	19			
Purchase and retirement of stock	(447)	(5,288)			
Dividends					
Balance, March 31, 2007	30,158	\$338,990	\$2,734	\$3,593	
Balance, December 31, 2007	29,018	\$334,211	\$2,990	(\$4,520)	
Comprehensive income					
Net income for the period					
Other comprehensive income, net of tax:					
Net unrealized gain on securities available for sale				557	
Post-retirement benefit transition					

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

obligation amortization

9

Total comprehensive income				
Exercise of stock options	176	6,528		
Stock option tax benefits		224		
Restricted stock activity		67	(67)	
Stock based compensation		336		
Stock awarded to employees	2	127		
Purchase and retirement of stock	(424)	(4,948)		
Dividends				
	-----			
Balance, March 31, 2008	28,772	\$336,545	\$2,923	(\$3,954)
	=====			

See accompanying notes to unaudited condensed consolidated financial statements.

Page 6

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

	For the three ended March
	2008
	-----
Operating Activities:	
Net income	\$26,778
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	2,273
Loan loss provision	600
Amortization of loan fees, net of cost	95
Decrease (increase) in interest income receivable	25
Increase in other assets	(4,214)
Increase in income taxes payable	10,910
Decrease in interest expense payable	(1,000)
Increase in other liabilities	1,683
Stock option compensation expense	336
Stock option tax benefits	(224)
Gain on sale of Visa common stock	(5,698)
Writedown of property and equipment	5
Originations of loans for resale	(877)
Net proceeds from sale of loans originated for resale	887
	-----
Net Cash Provided by Operating Activities	31,579
	-----
Investing Activities:	
Net repayments of loans	53,340
Purchases of investment securities available for sale	(3,836)
Proceeds from maturity of securities available for sale	60,390
Proceeds from maturity of securities held to maturity	28,675
Purchases of FRB/FHLB* securities	(38)

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

Proceeds from sale of FRB/FHLB* stock	11,287
Proceeds from sale of Visa common stock	5,698
Purchases of property, plant and equipment	(413)
	-----
Net Cash Provided by Investing Activities	155,103
	-----
Financing Activities:	
Net decrease in deposits	(70,152)
Net (decrease) increase in short-term borrowings	(163,335)
Repayments of notes payable and debt financing	(37)
Exercise of stock options	6,528
Stock option tax benefits	224
Repurchases/retirement of stock	(20,206)
Dividends paid	(9,847)
	-----
Net Cash Used in Financing Activities	(256,825)
	-----
Net (Decrease) Increase In Cash and Cash Equivalents	(70,143)
	-----
Cash and Cash Equivalents at Beginning of Period	209,764
	-----
Cash and Cash Equivalents at End of Period	\$139,621
	=====
Supplemental Disclosure of Noncash Activities:	
Loan collateral transferred to other real estate owned	\$341
Unrealized gain on securities available for sale, net	\$557
Supplemental Disclosure of Cash Flow Activity:	
Interest paid for the period	13,828
Income tax payments for the period	600

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 three months ended March 31, 2008 and 2007 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, 2007.

#### 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



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

and expenses, and disclosures of contingent assets and liabilities. The most significant of these involve the Allowance for Credit Losses, which is discussed in Note 1 to the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

On January 1, 2008, the Company adopted the following new accounting pronouncements:

- FASB Statement No. 157 ("FAS 157") - Fair Value Measurements
- FASB Statement No. 159 ("FAS 159") - The Fair Value Option for Financial Assets and Financial Liabilities -- Including an Amendment of FASB Statement No. 115

The adoption of FAS 157 & FAS 159 did not have any affect on the Company's financial statements at the date of adoption. For additional information, see Note 3.

### Recently Issued Accounting Pronouncements

In December 2007, the FASB issued FASB Statement No. 141 (revised 2007), Business Combinations. This Statement replaces FASB Statement No. 141, Business Combinations. This Statement retains the fundamental requirements in Statement 141 that the acquisition method of accounting (which Statement 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. This Statement also retains the guidance in Statement 141 for identifying and recognizing intangible assets separately from goodwill. This Statement requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the Statement. That replaces Statement 141's cost-allocation process, which required the cost of an acquisition to be allocated to the individual assets acquired and liabilities assumed based on their estimated fair values. Statement 141 required the acquirer to include the costs incurred to effect the acquisition (acquisition-related costs) in the cost of the acquisition that was allocated to the assets acquired and the liabilities assumed. This Statement requires those costs to be recognized separately from the acquisition. In addition, in accordance with Statement 141, restructuring costs that the acquirer expected but was not obligated to incur were recognized as if they were a liability assumed at the acquisition date. This Statement requires the acquirer to recognize those costs separately from the business combination. This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The impact of this Statement on the Company's financial statements will be contingent on the terms and conditions of future business combinations.

In March 2008, the FASB issued FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133 ("FAS 161"). FAS 161 changes disclosure requirements for derivative instruments and hedging activities. The Statement requires enhanced disclosures about (a) how and why derivative instruments are used, (b) how derivative and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect financial position, financial performance, and cash flows. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early adoption permitted. The Company had no derivative instruments designated as hedges as of March 31, 2008. The Company will adopt FAS 161 on January 1, 2009.

### Note 3: Fair Values of Assets and Liabilities.

On January 1, 2008, the Company adopted the provisions of FAS 159, The Fair

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

Value Option for Financial Assets and Financial Liabilities -- Including an Amendment of FASB Statement No. 115. In accordance with FAS 159, the Company, at its option, can value assets and liabilities at fair value on an instrument-by-instrument basis with changes in fair value recorded in earnings. The Company elected not to value any additional assets or liabilities at fair value in accordance with FAS 159.

Page 8

On January 1, 2008, the Company also adopted the provisions of FAS 157, Fair Value Measurements, with the exception of the requirements that pertain to nonfinancial assets and nonfinancial liabilities covered by FASB Staff Position (FSP) No. FAS 157-2. FAS 157 defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements for fair value measurements. FSP FAS 157-2 delays the effective date of the FAS 157 requirements for nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. Other real estate owned is an example of a nonfinancial asset that the Company is required to measure at fair value on a non-recurring basis in accordance with generally accepted accounting principles.

### Fair Value Hierarchy

In accordance with FAS 157 the Company groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

\* Level 1 - Valuation is based upon quoted prices for identical instruments traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

\* Level 2 - Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market. Level 2 securities include mortgage-backed securities, municipal bonds and collateralized mortgage obligations.

\* Level 3 - Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company's estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

The table below presents the balances of available for sale securities measured at fair value on a recurring basis. (in thousands)

At March 31, 2008

Total	Level 1	Level 2	Level 3
-------	---------	---------	---------

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

\$477,686      \$156,224      \$321,462      \$0  
 =====

The Company had no Level 3 assets or liabilities measured at fair value on a recurring basis.

Note 4: Investments

The amortized cost and estimated market value of the available for sale investment securities portfolio as of March 31, 2008 follows:

	Amortized Cost	Estimated Market Value
Securities of U.S. Treasury and federal agencies	\$103,366	\$103,664
Mortgage-backed securities	128,358	127,546
Obligations of States and political subdivisions	176,426	182,758
Asset-backed securities	9,999	9,229
Other securities (1)	65,757	54,489
Total	\$483,906	\$477,686

(1) Other securities included FHLMC and FNMA preferred stock, and common stocks.

The amortized cost and estimated market value of the held to maturity investment securities portfolio as of March 31, 2008 follows:

	Amortized Cost	Estimated Market Value
Securities of U.S. federal agencies	\$120,000	\$122,361
Mortgage-backed securities	334,956	333,651
Obligations of States and political subdivisions	561,657	573,925
Total	\$1,016,613	\$1,029,937

Page 9

Note 5: Loans

A summary of the major categories of loans outstanding is shown in the following table.

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

	At March 31,		At
	2008	2007	December 31, 2007
Commercial	\$516,445	\$548,897	\$532,650
Real Estate - commercial	848,991	895,765	856,581
Real Estate - construction	84,498	68,935	97,464
Real Estate - residential	473,525	499,505	484,549
	-----		
Total Real Estate loans	1,407,014	1,464,205	1,438,594
Installment and personal	524,861	506,796	531,732
	-----		
Gross loans	2,448,320	2,519,898	2,502,976
Allowance for loan losses	(52,234)	(54,889)	(52,506)
	-----		
Net loans	\$2,396,086	\$2,465,009	\$2,450,470
	=====		

There were no loans held for sale at March 31, 2008, March 31, 2007 and December 31, 2007.

Note 6: Goodwill and Other Identifiable Intangible Assets

The Company has recorded goodwill and other identifiable intangibles associated with purchase business combinations. Goodwill is not amortized, but is periodically evaluated for impairment. The Company did not recognize impairment during the three months ended March 31, 2008 and March 31, 2007. 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 three months ended March 31, 2008 and March 31, 2007, no such adjustments were recorded.

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

December 31, 2006	\$121,719
	--
	-----
March 31, 2007	\$121,719
	=====
December 31, 2007	\$121,719
	--
	-----
March 31, 2008	\$121,719
	=====

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

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

	March 31,			
	2008		2007	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Core Deposit Intangibles	\$24,383	(\$11,927)	\$24,383	(\$9,806)
Merchant Draft Processing Intangible	10,300	(5,185)	10,300	(3,769)
Total Identifiable Intangible Assets	\$34,683	(\$17,112)	\$34,683	(\$13,575)

As of March 31, 2008, the current year and estimated future amortization expense for identifiable intangible assets was (\$ in thousands):

	Core Deposit Intangibles	Merchant Draft Processing Intangible	Total
Three months ended March 31, 2008 (actual)	\$522	\$336	\$858
Estimate for year ended December 31,			
2008	2,021	1,200	3,221
2009	1,859	962	2,821
2010	1,636	774	2,410
2011	1,386	624	2,010
2012	1,230	500	1,730
2013	964	400	1,364

Page 10

Note 7: Stock Options

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

The Company applies the Roll-Geske option pricing model (Modified Roll) to determine grant date fair value of stock option grants. This model modifies the Black-Scholes Model to take into account dividends and American options. The

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

following weighted average assumptions were used in the option pricing to value stock options granted in the periods indicated:

	For the Three months ended March 31,	
	2008	2007
	-----	
Expected volatility*1	15%	14%
Expected life in years*2	4.0	4.0
Risk-free interest rate*3	2.66%	4.89%
Expected dividend yield	2.78%	2.82%
Fair value per award	\$6.77	\$6.02

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

\*2 The number of years that the Company estimates that the options will be outstanding prior to exercise

\*3 The risk-free rate over the expected life based on the US Treasury yield curve in effect at the time of the grant

Employee stock option grants are being expensed by the Company over the grants' three year vesting period.

A summary of stock option activity is presented below:

	2008		
	Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
	-----		
Outstanding at January 1,	2,865	\$42.12	
Granted	256	47.13	
Exercised	(176)	37.21	
Forfeited or expired	(24)	50.88	
	-----		
Outstanding at March 31,	2,921	42.78	5.1 years
	=====		
Exercisable at March 31,	2,470	41.78	4.4 years
	=====		

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

	2007		
	Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at January 1,	3,064	\$41.08	
Granted	242	48.39	
Exercised	(57)	36.33	
Forfeited or expired	(35)	51.25	
Outstanding at March 31,	3,214	41.61	5.5 years
Exercisable at March 31,	2,678	39.79	4.7 years

Page 11

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

	2008	
	Shares (in thousands)	Weighted Average Grant Date Fair Value
Nonvested at January 1,	484	\$6.33
Granted	256	6.77
Vested	(278)	6.44
Forfeited	(11)	6.20
Nonvested at March 31,	451	6.52

	2007	
	Shares (in thousands)	Weighted Average Grant Date Fair Value

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

	-----	
Nonvested at January 1,	687	\$6.66
Granted	242	6.02
Vested	(375)	6.72
Forfeited	(18)	6.59
	-----	
Nonvested at March 31,	536	6.33
	=====	

The total remaining unrecognized compensation cost related to nonvested awards as of March 31, 2008 is \$2.6 million and the weighted average period over which the cost is expected to be recognized is 2.2 years.

A summary of the status of the Company's restricted performance shares as of March 31, 2008 and 2007 and changes during the quarters ended on those dates, follows (in thousands):

	2008	2007
	-----	
Outstanding at January 1,	38	36
Granted	28	16
Exercised	0	(1)
Forfeited	(2)	0
	-----	
Outstanding at March 31,	64	51
	=====	

The compensation cost that was charged against income for the Company's restricted performance shares granted was \$270 thousand and \$160 thousand for the first quarter of 2008 and 2007, respectively.

There were no stock appreciation rights or incentive stock options granted in the first quarter of 2008 and 2007.

Note 8: Post Retirement Benefits

The Company offers a continuation of group insurance coverage to qualifying employees electing early retirement, for the period from the date of retirement until age 65. For eligible employees the Company pays a portion of these early retirees' insurance premiums. The Company reimburses a portion of Medicare Part B premiums for all qualifying retirees over age 65 and their qualified spouses. Eligibility for post-retirement medical benefits is based on age and years of service, and restricted to employees hired prior to February 1, 2006. The Company uses an actuarial-based accrual method of accounting for post-retirement benefits.

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



Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

	For the three months ended March 31,	
	2008	2007
Service cost	(\$100)	\$4
Interest cost	66	66
Amortization of unrecognized transition obligation	15	15
Net periodic cost	(\$19)	\$85

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

Page 12

Note 9: Contingent Liabilities

In accordance with Visa's by-laws, the Company and other Visa U.S.A. member banks are obligated to share in Visa's litigation obligations which existed at the time of Visa's restructuring transactions. Accordingly, in the fourth quarter 2007, the Company recorded estimated litigation liabilities and related litigation expense related to Visa Inc. in the amount of \$2,338 thousand. During the first quarter 2008, in accordance with the determination of Visa Inc.'s Litigation Committee, Visa Inc. funded its litigation escrow account with \$3 billion of net proceeds from the Visa Inc. initial public offering. This escrow account will be used to make payments related to certain covered Visa litigation. At the time of escrow funding, the Company reduced its litigation liability with a corresponding reversal of litigation expense of \$2,338 thousand representing the Company's portion of the escrow account limited by the amount previously recognized as an expense.

Note 10: 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.

	For the three months ended March 31,	
(In thousands, except per share data)	2008	2007
Weighted average number of common shares outstanding - basic	28,861	30,342
Add exercise of options reduced by the number of shares that could have been		

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

purchased with the proceeds of such exercise	349	482
Weighted average number of common shares outstanding - diluted	29,210	30,824
Net income	\$26,778	\$23,570
Basic earnings per share	\$0.93	\$0.78
Diluted earnings per share	\$0.92	\$0.76

For the three months ended March 31, 2008 and 2007, options to purchase 1.3 million and 922 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.

Page 13

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

	Three months ended		
	March 31,		December 31,
	2008	2007	2007
Net Interest Income (FTE)**	\$47,982	\$46,914	\$46,812
Provision for Credit Losses	600	75	475
Noninterest Income:			
Gain on sale of Visa common stock	5,698	0	0
Life insurance proceeds	0	822	0
Deposit service charges and other	13,680	14,455	14,657
Total Noninterest Income	19,378	15,277	14,657
Noninterest Expense:			
Visa litigation	(2,338)	0	2,338
Other	25,394	24,664	24,868
Total Noninterest Expense	23,056	24,664	27,206
Provision for income taxes (FTE)**	16,926	13,882	11,956
Net Income	\$26,778	\$23,570	\$21,832
Average Shares Outstanding	28,861	30,342	29,213
Diluted Average Shares Outstanding	29,210	30,824	29,575
Shares Outstanding at Period End	28,772	30,158	29,018
As Reported:			
Basic Earnings Per Share	\$0.93	\$0.78	\$0.75

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

Diluted Earnings Per Share	0.92	0.76	0.74
Return On Assets	2.43%	2.03%	1.90%
Return On Equity	27.32%	23.04%	21.72%
Net Interest Margin (FTE)**	4.79%	4.41%	4.53%
Net Loan Losses to Average Loans	0.14%	0.08%	0.14%
Efficiency Ratio*	34.2%	39.7%	44.3%
Average Balances:			
Total Assets	\$4,433,934	\$4,713,173	\$4,556,715
Earning Assets	4,028,221	4,287,431	4,124,196
Total Gross Loans	2,477,666	2,519,861	2,496,403
Total Deposits	3,212,347	3,427,010	3,325,154
Shareholders' Equity	394,273	414,957	398,703
Balances at Period End:			
Total Assets	\$4,342,302	\$4,748,829	\$4,558,959
Earning Assets	3,942,955	4,264,821	4,081,418
Total Gross Loans	2,448,320	2,519,898	2,502,976
Total Deposits	3,194,638	3,444,372	3,264,790
Shareholders' Equity	399,109	419,810	394,603
Financial Ratios at Period End:			
Allowance for Loan Losses to Loans	2.13%	2.18%	2.10%
Book Value Per Share	\$13.87	\$13.92	\$13.60
Equity to Assets	9.19%	8.84%	8.66%
Total Capital to Risk Adjusted Assets	11.04%	10.96%	10.64%
Dividends Paid Per Share	\$0.34	\$0.34	\$0.34
Dividend Payout Ratio	37%	44%	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 with the exception of the efficiency ratio.

\* 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 14

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

Westamerica Bancorporation and subsidiaries (the "Company") reported first quarter 2008 net income of \$26.8 million or \$0.92 diluted earnings per share. These results compare to net income of \$23.6 million or \$0.76 diluted earnings per share and \$21.8 million or \$0.74 diluted earnings per share, respectively, for the first and fourth quarters of 2007. The first quarter of 2008 included benefits from Visa's initial public offering which increased net income by \$4.7 million and earnings per diluted share by \$0.16. The first quarter of 2007 included \$822 thousand in tax-exempt company owned life insurance proceeds, representing \$0.02 earnings per diluted share. The fourth quarter of 2007 included litigation expense of \$2.3 million related to Westamerica's proportionate share of Visa's litigation exposure and a \$700 thousand income

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

tax refund which combined to reduce net income by \$590 thousand or earnings per diluted share by \$0.02.

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

	Three months ended		
	March 31,		December 31,
	2008	2007	2007
Net interest income (FTE)	\$47,982	\$46,914	\$46,812
Provision for loan losses	(600)	(75)	(475)
Noninterest income	19,378	15,277	14,657
Noninterest expense	(23,056)	(24,664)	(27,206)
Provision for income taxes (FTE)	(16,926)	(13,882)	(11,956)
<b>Net income</b>	<b>\$26,778</b>	<b>\$23,570</b>	<b>\$21,832</b>
Average diluted shares	29,210	30,824	29,575
Diluted earnings per share	\$0.92	\$0.76	\$0.74
Average total assets	\$4,433,934	\$4,713,173	\$4,556,715
Net income (annualized) to average total assets	2.43%	2.03%	1.90%
Net income (annualized) to average stockholders' equity	27.32%	23.04%	21.72%

Net income for the first quarter of 2008 was \$3.2 million or 13.6% more than the same quarter of 2007, attributable to higher net interest income (FTE), higher noninterest income, and lower noninterest expense, partially offset by higher provision for loan losses and an increase in income tax provision (FTE). The increase in net interest income (FTE) (up \$1.1 million or 2.3%) was the net result of lower funding costs, partially offset by lower average balances of earning assets and lower yields on loans. The provision for loan losses increased \$525 thousand, reflecting Management's assessment of credit risk and the level of the allowance for loan losses. Noninterest income rose \$4.1 million or 26.8% mainly due to a \$5.7 million gain on sale of Visa common stock, partially offset by \$822 thousand in proceeds from company-owned life insurance recognized in the first quarter 2007. Noninterest expense decreased \$1.6 million or 6.5% mostly due to the reversal of a \$2.3 million accrual for Visa related litigation, which was reversed with the funding of a litigation escrow as a part of the Visa IPO. The provision for income taxes (FTE) increased \$3.0 million or 21.9% primarily due to higher profitability and because the first quarter 2007 income tax provision (FTE) was reduced due to the tax-exempt nature of Company owned life insurance proceeds.

Comparing the first quarter of 2008 to the prior quarter, net income increased \$4.9 million or 22.7%, due to higher net interest income (FTE), higher noninterest income and lower noninterest expense, partially offset by increases in the provision for loan losses and income tax provision (FTE). The higher net interest income (FTE) was mainly caused by lower funding costs, partially

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

offset by a lower volume of average earning assets and lower yields on loans. The provision for loan losses increased \$125 thousand to reflect Management's assessment on credit risk and the level of the allowance for loan losses. Noninterest income increased \$4.7 million or 32.2% largely due to gains on sale of Visa common stock. Noninterest expense declined \$4.2 million or 15.3% primarily due to a reversal of the \$2.3 million Visa related litigation accrual. The income tax provision (FTE) increased \$5.0 million or 41.6% primarily due to higher profitability and because the provision for the prior quarter was reduced due to a \$700 thousand income tax refund.

Page 15

### Net Interest Income

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

	Three months ended		
	March 31,		December 31,
	2008	2007	2007
Interest and fee income	\$55,394	\$59,374	\$57,861
Interest expense	(12,828)	(18,111)	(16,483)
FTE adjustment	5,416	5,651	5,434
Net interest income (FTE)	\$47,982	\$46,914	\$46,812
Average earning assets	\$4,028,221	\$4,287,431	\$4,124,196
Net interest margin (FTE)	4.79%	4.41%	4.53%

Net interest income (FTE) increased during the first quarter of 2008 by \$1.1 million or 2.3% from the same period in 2007 to \$48.0 million, mainly due to lower rates paid on interest-bearing liabilities (down 61 bp) and lower average balances of such liabilities (down \$190 million), partially offset by lower average earning assets (down \$259 million) and lower yields on loans (down 18 bp).

Comparing the first three months of 2008 with the fourth quarter of 2007, net interest income (FTE) increased \$1.2 million or 2.5%, primarily due to lower rates paid on interest-bearing liabilities (down 45 bp) and lower average balances of such liabilities (down \$59 million), partially offset by lower average balances of earning assets (down \$96 million) and lower yields on loans (down 10 bp).

### Interest and Fee Income

Interest and fee income (FTE) for the first quarter of 2008 decreased \$4.2 million or 6.5% from the same period in 2007. The decrease was caused primarily by lower average earning assets (down \$259 million) and lower yields on loans (down 18 bp).

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

The decrease in the average earning assets in the first quarter of 2008 compared with the same period in 2007 was substantially attributable to a \$217 million decline in the average investment portfolio: mortgage backed securities and collateralized mortgage obligations (down \$111 million), U.S. government sponsored entity obligations (down \$67 million) and municipal securities (down \$34 million). Average total loans were lower by \$42 million in the first quarter of 2008 compared with the same period in 2007 primarily due to decreases in average balances of commercial real estate loans (down \$50 million), residential real estate loans (down \$25 million) and tax-exempt commercial loans (down \$17 million), partially offset by increases in average balances of consumer loans (up \$32 million) and construction loans (up \$22 million).

The average yield on the Company's earning assets decreased from 6.11% in the first quarter of 2007 to 6.06% in the same period in 2008. The composite yield on loans fell 18 bp to 6.48% due to decreases in yields on taxable commercial loans (down 92 bp), real estate construction loans (down 159 bp), commercial real estate loans (down 11 bp) and consumer loans (down 5 bp), partially offset by an 8 bp increase in yields on residential real estate loans. The investment portfolio yield increased 5 bp to 5.40%, mainly due to a 7 bp increase in the average yield on mortgage backed securities and collateralized mortgage obligations, partially offset by declines in U.S. government sponsored entity obligations (down 9 bp) and corporate and other securities (down 68 bp).

Comparing the first three months of 2008 with the last three months of 2007, interest and fee income (FTE) was down \$2.5 million or 3.9%. The decrease largely resulted from a lower volume of average earning assets and lower yields on loans.

Average earning assets decreased \$96 million or 2.3% for the first quarter of 2008 compared with the previous quarter. Average investments declined \$77 million due to decreases in the average balances of U.S. government sponsored entity obligations (down \$35 million), mortgage backed securities and collateralized mortgage obligations (down \$22 million), municipal securities (down \$12 million) and corporate and other securities (down \$11 million). A \$19 million decline in the average balance of the loan portfolio was mostly attributable to decreases in average balances of tax-exempt commercial loans (down \$3 million), commercial real estate loans (down \$14 million) and residential real estate loans (down \$6 million), partially offset by an \$8 million increase in the average balance of taxable commercial loans.

The average yield on earning assets for the first three months of 2008 was 6.06% compared with 6.11% in the fourth quarter of 2007. The loan portfolio yield for the first three months of 2008 compared with the previous quarter was lower by 10 bp, due to decreases in yields on taxable commercial loans (down 67 bp), construction loans (down 46 bp), consumer loans (down 8 bp) and commercial real estate loans (down 4 bp), partially offset by a 7 bp increase in the average yield on tax-exempt commercial loans. The investment portfolio yield increased by 2 bp. The increase resulted mostly from higher yields on municipal securities (up 2 bp), offset by lower yields on U.S. government sponsored entity obligations (down 9 bp).

Page 16

### Interest Expense

Interest expense in the first quarter of 2008 decreased \$5.3 million or 29.2% compared with the same period in 2007. The decrease was attributable to lower rates paid on the interest-bearing liabilities and lower average balances of those liabilities.

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

The average rate paid on interest-bearing liabilities decreased from 2.46% in the first quarter of 2007 to 1.85% in the same quarter of 2008. Rates paid on most interest-bearing liabilities moved with general market conditions. Rates on deposits decreased 28 bp to 1.46% primarily due to decreases in rates paid on preferred money market savings (down 43 bp) and CDs over \$100 thousand (down 148 bp). Rates on short-term borrowings also decreased 162 bp mostly due to lower rates on federal funds purchased (down 203 bp) and line of credit and repurchase facilities (down 88 bp).

Average interest-bearing liabilities declined \$190 million or 6.4% for the first quarter of 2008 over the same period of 2007. Interest-bearing deposits decreased \$144 million or 6.7% primarily due to decreases in money market savings (down \$100 million), regular savings (down \$33 million), money market checking accounts (down \$41 million) and CDs less than \$100 thousand (down \$22 million). The decline was partially offset by increases in preferred money market savings (up \$35 million) and CDs over \$100 thousand (up \$16 million).

Comparing the first quarter of 2008 to the fourth quarter of 2007, interest expense declined \$3.7 million or 22.2%, due to lower rates paid on interest-bearing liabilities and a decline in such liabilities.

Rates paid on liabilities averaged 1.85% during the first three months of 2008 compared with 2.30% for the last three months of 2007. The average rate paid on short-term borrowings declined 95 bp mainly due to lower rates on federal funds (down 134 bp) and line of credit and repurchase facilities (down 95 bp). Rates on interest-bearing deposits were also lower by 29 bp largely due to preferred money market savings (down 64 bp) and CDs over \$100 thousand (down 89 bp).

Average interest-bearing liabilities during the first quarter of 2008 declined \$59 million or 2.1% over the last quarter of 2007 mainly due to decreases in money market savings (down \$34 million) and CDs over \$100 thousand (down \$12 million). Short-term borrowings declined \$5 million, mainly the net result of a \$21 million increase in federal funds purchased, partially offset by a \$23 million decline in sweep accounts.

In all periods, the Company has focused its sales efforts on building the balances of more profitable, noninterest bearing and lower-cost transaction 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		
	-----		
	March 31,	December 31,	December 31,
	2008	2007	2007
	-----		
Yield on earning assets (FTE)	6.06%	6.11%	6.11%
Rate paid on interest-bearing liabilities	1.85%	2.46%	2.30%
	-----		
Net interest spread (FTE)	4.21%	3.65%	3.81%
Impact of all other net			

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

noninterest bearing funds	0.58%	0.76%	0.72%
	-----	-----	-----
Net interest margin (FTE)	4.79%	4.41%	4.53%
	=====	=====	=====

During the first quarter of 2008, the net interest margin (FTE) increased 38 bp compared with the same period in 2007. Rates paid on interest-bearing liabilities declined faster than yields on earning assets (FTE), resulting in a 56 bp increase in net interest spread. The increase in the net interest spread was partially reduced by the lower net interest margin contribution of noninterest bearing funding sources. The margin contribution of noninterest bearing funds decreased 18 bp because of the lower market rates of interest at which they could be invested.

Similarly, the net interest margin (FTE) in the first three months of 2008 rose by 26 bp when compared with the fourth quarter of 2007. Earning asset yields decreased 5 bp while the cost of interest-bearing liabilities declined by 45 bp, resulting in a 40 bp increase in the net interest spread. The 14 bp decrease in noninterest bearing funding sources lowered the increase in the net interest margin.

Page 17

Summary of Average Balances, Yields/Rates and Interest Differential

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

	For the three months ended March 31, 2008	
	Average Balance	Interest Income/ Expense
	-----	-----
Assets:		
Money market assets and funds sold	\$892	\$1
Investment securities:		
Available for sale		
Taxable	299,484	3,112
Tax-exempt (1)	218,733	3,962
Held to maturity		
Taxable	471,183	5,183
Tax-exempt (1)	560,263	8,655
Loans:		
Commercial:		
Taxable	309,177	5,858



Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Tax-exempt (1)	215,145	3,465
Commercial real estate	850,504	14,953
Real estate construction	92,672	1,965
Real estate residential	478,929	5,757
Consumer	531,239	7,899
	-----	-----
Total loans (1)	2,477,666	39,897
	-----	-----
Total earning assets (1)	4,028,221	60,810
Other assets	405,713	
	-----	-----
Total assets	\$4,433,934	
	=====	
Liabilities and shareholders' equity		
Deposits:		
Noninterest bearing demand	\$1,199,604	\$--
Savings and interest-bearing transaction	1,314,860	1,782
Time less than \$100,000	196,947	1,589
Time \$100,000 or more	500,936	3,957
	-----	-----
Total interest-bearing deposits	2,012,743	7,328
Short-term borrowed funds	722,025	4,922
Debt financing and notes payable	36,758	578
	-----	-----
Total interest-bearing liabilities	2,771,526	12,828
Other liabilities	68,531	
Shareholders' equity	394,273	
	-----	-----
Total liabilities and shareholders' equity	\$4,433,934	
	=====	
Net interest spread (1) (2)		
Net interest income and interest margin (1) (3)		\$47,982
		=====

- (1) Interest and rates calculated on a fully taxable equivalent basis using the current statutory federal tax rate.
- (2) Net interest spread represents the average yield earned on earning assets minus the average rate paid on interest-bearing liabilities.
- (3) Net interest margin is computed by calculating the difference between interest income and expense (annualized), divided by the average balance of earning assets.

Page 18

	For the three months ended March 31, 2007	
	Average Balance	Interest Income/ Expense
	-----	-----
Assets:		
Money market assets and funds sold	\$710	\$2

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Investment securities:		
Available for sale		
Taxable	377,136	4,070
Tax-exempt (1)	235,716	4,445
Held to maturity		
Taxable	579,589	6,268
Tax-exempt (1)	574,419	8,842
Loans:		
Commercial:		
Taxable	313,541	6,604
Tax-exempt (1)	232,026	3,712
Commercial real estate		
Real estate construction	900,625	15,935
Real estate residential	70,710	1,765
Consumer	503,888	5,956
Consumer	499,071	7,426
Total loans (1)	2,519,861	41,398
Total earning assets (1)	4,287,431	65,025
Other assets	425,742	
Total assets	\$4,713,173	
Liabilities and shareholders' equity		
Deposits:		
Noninterest bearing demand	\$1,270,522	\$--
Savings and interest-bearing transaction	1,453,052	1,932
Time less than \$100,000	218,549	1,734
Time \$100,000 or more	484,887	5,571
Total interest-bearing deposits	2,156,488	9,237
Short-term borrowed funds	767,859	8,296
Debt financing and notes payable	36,905	578
Total interest-bearing liabilities	2,961,252	18,111
Other liabilities	66,443	
Shareholders' equity	414,956	
Total liabilities and shareholders' equity	\$4,713,173	
Net interest spread (1) (2)		
Net interest income and interest margin (1) (3)		\$46,914

(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.

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

For the three months ended  
December 31, 2007

	Average Balance	Interest income/ expense
<b>Assets:</b>		
Money market assets and funds sold	\$817	\$3
<b>Investment securities:</b>		
Available for sale		
Taxable	387,536	3,747
Tax-exempt (1)	225,315	4,077
Held to maturity		
Taxable	449,426	5,395
Tax-exempt (1)	564,699	8,684
<b>Loans:</b>		
Commercial:		
Taxable	301,374	6,297
Tax-exempt (1)	218,522	3,531
Commercial real estate	864,464	15,492
Real estate construction	95,197	2,158
Real estate residential	485,290	5,793
Consumer	531,556	8,118
Total loans (1)	2,496,403	41,389
Total earning assets (1)	4,124,196	63,295
Other assets	432,519	
Total assets	\$4,556,715	
<b>Liabilities and shareholders' equity</b>		
<b>Deposits:</b>		
Noninterest bearing demand	\$1,258,496	\$--
Savings and interest-bearing transaction	1,351,806	2,151
Time less than \$100,000	202,242	1,716
Time \$100,000 or more	512,610	5,259
Total interest-bearing deposits	2,066,658	9,126
Short-term borrowed funds	726,783	6,779
Debt financing and notes payable	36,794	578
Total interest-bearing liabilities	2,830,235	16,483
Other liabilities	69,281	
Shareholders' equity	398,703	
Total liabilities and shareholders' equity	\$4,556,715	
Net interest spread (1) (2)		
Net interest income and interest margin (1) (3)		\$46,812

(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 20

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

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

	Three months ended March 3 compared with three mo ended March 31, 200	
	Volume	Rate
Interest and fee income:		
Money market assets and funds sold	\$0	(\$1)
Investment securities:		
Available for sale		
Taxable	(805)	(153)
Tax-exempt (1)	(297)	(186)
Held to maturity		
Taxable	(1,184)	99
Tax-exempt (1)	(209)	22
Loans:		
Commercial:		
Taxable	(28)	(718)
Tax-exempt (1)	(241)	(6)
Commercial real estate	(743)	(239)
Real estate construction	510	(310)
Real estate residential	(284)	85
Consumer	543	(70)
	(243)	(1,258)
Total decrease in interest and fee income (1)	(2,738)	(1,477)
Interest expense:		
Deposits:		
Savings and interest-bearing transaction	(170)	20
Time less than \$100,000	(159)	14
Time \$100,000 or more	222	(1,836)
	(107)	(1,802)
Short-term borrowed funds	(412)	(2,962)
Debt financing and notes payable	3	(3)
	(516)	(4,767)

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

(Decrease) increase in Net Interest Income (1) (\$2,222) \$3,290

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

Page 21

	Three months ended March 31, 2017 compared with three months ended December 31, 2016	
	Volume	Rate
Interest and fee income:		
Money market assets and funds sold	\$0	(\$2)
Investment securities:		
Available for sale		
Taxable	(908)	273
Tax-exempt (1)	(120)	5
Held to maturity		
Taxable	219	(431)
Tax-exempt (1)	(87)	58
Loans:		
Commercial:		
Taxable	87	(526)
Tax-exempt (1)	(100)	34
Commercial real estate	(449)	(90)
Real estate construction	(80)	(113)
Real estate residential	(90)	54
Consumer	(103)	(116)
	(735)	(757)
Total loans (1)		
Total decrease in interest and fee income (1)	(1,631)	(854)
Interest expense:		
Deposits:		
Savings and interest-bearing transaction	(79)	(290)
Time less than \$100,000	(64)	(63)
Time \$100,000 or more	(163)	(1,139)
	(306)	(1,492)
Total interest-bearing deposits		
Short-term borrowed funds	(100)	(1,757)
Debt financing and notes payable	(8)	8
	(414)	(3,241)
Total decrease in interest expense		
(Decrease) increase in Net Interest Income (1)	(\$1,217)	\$2,387

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

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

Page 22

### Provision for Loan Losses

The level of the provision for loan 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 \$600 thousand, \$75 thousand and \$475 thousand for loan losses in the first quarter of 2008, the first quarter and the fourth quarter of 2007, respectively. The provision reflects the Company's loss experience and Management's assessment of credit risk in the loan portfolio for each of the periods presented. For further information regarding net credit losses and the allowance for loan losses, see the "Allowance for Credit Losses" section of this report.

### Noninterest Income

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

	Three months ended		
	March 31,		December 31,
	2008	2007	2007
Service charges on deposit accounts	\$7,296	\$7,528	\$7,422
Merchant credit card fees	2,580	2,449	2,817
Debit card fees	904	895	972
ATM fees and interchange	718	677	709
Other service fees	486	501	569
Financial services commissions	230	310	265
Trust fees	303	337	303
Official check issuance income	90	311	209
Mortgage banking income	40	30	32
Gain on sale of Visa common stock	5,698	0	0
Life insurance proceeds	0	822	0
Other noninterest income	1,033	1,417	1,359
<b>Total</b>	<b>\$19,378</b>	<b>\$15,277</b>	<b>\$14,657</b>

Noninterest income for the first quarter of 2008 rose by \$4.1 million or 26.8% from the same period in 2007. The increase was mostly attributable to \$5.7 million in securities gains on sale of Visa common stock. Visa's initial public offering ("IPO") occurred on March 19, 2008. As a part of the IPO, Visa redeemed class B common stock held by Visa member banks in an amount which reduced Visa member banks' ownership in Visa to less than 50 percent. As a result, a portion of the shares of Visa class B common stock held by the Company were redeemed, resulting in a gain of \$5.7 million. A \$131 thousand or 5.3% increase in merchant credit card fees also contributed to higher

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

noninterest income. Proceeds of \$822 thousand from Company owned life insurance recognized in the first quarter of 2007 partially offset the increase. Additionally, service charges on deposit accounts decreased \$232 thousand or 3.1% mainly due to declines in charges for overdrafts, returned items and checking and savings account services. Official check issuance income fell \$221 thousand or 71.1% mainly due to the lower incentive rate from the vendor, who is in the process of terminating this line of business. The Company will issue its own official checks in the future and realize the economic benefit as part of its net interest income. Other noninterest income declined \$384 thousand or 27.1% largely due to lower interest recoveries on charged off loans.

In the first quarter of 2008, noninterest income increased \$4.7 million or 32.2% compared with the previous quarter primarily due to \$5.7 million gains from the redemption of Visa common stock. Merchant credit card income declined \$237 thousand or 8.4% primarily due to seasonally higher credit card draft volumes in the fourth quarter 2007. Service charges on deposit accounts decreased \$126 thousand or 1.7% mostly due to a \$243 thousand decline in overdraft fees, partially offset by a \$121 thousand increase in deficit fees charged on analyzed accounts. Official check issuance income fell \$119 thousand or 56.9% mainly due to the lower incentive rate from the vendor, who is in the process of terminating this line of business. Other noninterest income declined \$326 thousand or 24.0% largely due to a \$230 thousand gain on sale of real property recorded in the previous quarter.

Page 23

### Noninterest Expense

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

	Three months ended		
	March 31,		December 31,
	2008	2007	2007
Salaries and related benefits	\$12,984	\$12,568	\$12,366
Occupancy	3,390	3,291	3,386
Data processing services	2,120	1,524	2,202
Equipment	921	1,138	934
Amortization of identifiable intangibles	858	975	893
Courier service	829	848	845
Professional fees	536	495	534
Postage	383	410	391
Telephone	335	360	343
Stationery and supplies	279	315	365
Customer checks	230	248	236
In-house meetings	193	156	185
Operational losses	184	160	234
Correspondent Service Charges	170	225	201
Loan expense	170	167	195
Advertising/public relations	177	228	193
Visa litigation expense	(2,338)	0	2,338
Other noninterest expense	1,635	1,556	1,365
Total	\$23,056	\$24,664	\$27,206

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Average full time equivalent staff	886	892	868
Noninterest expense to revenues (FTE)	34.23%	39.66%	44.26%

Noninterest expense decreased \$1.6 million or 6.5% in the three months ended March 31, 2008 compared with the same period in 2007 mainly due to the reversal of a \$2.3 million accrual for Visa related litigation. A condition of Visa's IPO was to establish and fund an escrow to provide settlement funds for Visa litigation based in the United States existing prior to the IPO. Visa USA former member banks were required to share in Visa's pre-IPO litigation on a proportional basis under Visa's reciprocal responsibility plan. In the fourth quarter 2007, the Company accrued for its estimated Visa litigation obligations in the amount of \$2.3 million, establishing a liability through a direct expense to earnings. As a result of Visa's IPO, a portion of the shares of the Company's holdings of Visa class B common stock were sold to fund the litigation escrow. The Company has recognized such in its financial statements by eliminating its liability and reversing the expense recognized in the fourth quarter 2007. Equipment expense declined \$217 thousand or 19.1% primarily due to lower repair, maintenance and depreciation expenses. Amortization of deposit intangibles decreased \$117 thousand or 12.0%. Data processing services increased \$596 thousand or 39.1% due to conversion of the Company's item processing function to an outside vendor in the third quarter 2007. Salaries and related benefits increased \$416 thousand or 3.3%, mainly due to higher employee benefit costs and annual merit increases.

In the first quarter of 2008, noninterest expense declined \$4.2 million or 15.3% compared with the previous quarter mainly due to the reversal of a \$2.3 million accrual for the Visa's litigation and the same litigation expense recorded in the last quarter 2007. Salaries and related benefits increased \$618 thousand or 5.0% mostly due to annual merit increases, a higher staff count and higher employee benefits including seasonally high payroll taxes. Other noninterest expense increased \$270 thousand or 19.8% primarily due to a \$400 thousand credit for a reduction in the reserve for unfunded loan commitments in the last quarter of 2007 as a result of a reduction in commitments under construction credit facilities.

Provision for Income Tax

During the first quarter of 2008, the Company recorded income tax expense (FTE) of \$16.9 million, compared with \$13.9 million and \$12.0 million for the first and fourth quarters of 2007, respectively. The current quarter provision represents an effective tax rate (FTE) of 38.7%, compared with 37.1% and 35.4% for the first and fourth quarters of 2007, respectively. The effective tax rate for the first quarter 2007 was lower primarily due to the tax-exempt nature of Company owned life insurance proceeds of \$822 thousand. The effective tax rate for the fourth quarter was reduced primarily due to a \$700 thousand tax refund and other tax items. The tax provisions and effective tax rates fluctuated due to the relative level of tax- exempt income from municipal securities and loans to the level of pretax income.

Page 24

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



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

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 fair value less cost to sell.

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

	At March 31, ----- 2008	2007	At ----- December 31, 2007
Classified loans	\$33,303	\$18,439	\$24,419
Other real estate owned	954	647	613
	-----		
Classified loans and other real estate owned	\$34,257	\$19,086	\$25,032
	=====		
Allowance for loan losses / classified loans	157%	298%	215%

Classified loans include loans graded "Substandard", "Doubtful" and "Loss" using regulatory guidelines. At March 31, 2008, \$32.6 million of loans are graded "Substandard" or 98.0% of total classified loans. Such substandard loans accounted for 1.33% of total gross loans at March 31, 2008. Classified loans at March 31, 2008, increased \$14.9 million or 80.6% from a year ago. The increase resulted primarily from 20 downgrades, partially offset by nine loan payoffs and four upgrades. An \$8.9 million or 36.4% increase in classified loans from December 31, 2007 was generally due to eight downgrades, partially offset by three upgrades and three payoffs. One of the loans downgraded during the first quarter 2008 was a construction loan relationship with \$11.1 million outstanding at March 31, 2008. The loan collateral, located north of Sacramento, California, is comprised of land purchased for development and construction of approximately 110 residential real estate properties and thirteen finished and four nearly completed residential properties. Subsequent to March 31, 2008, the borrower marketed and received purchase offers on fourteen of the finished and nearly completed properties. These pending sales are subject to conditions typically present in similar transactions, including potential buyers obtaining financing. The Company is not offering financing for these pending transactions. If all of these pending sales are successful, the Company estimates the outstanding balance on the loan relationship will be reduced by \$4.0 million, including a loan charge-off of approximately \$780 thousand. Additionally, the borrower has received an offer on a portion of the remaining project. If such sale is completed, the outstanding balance on the loan relationship would be reduced \$1.5 million with no loan charge-off. The Company is not offering financing for this potential transaction. Management is aggressively pursuing collection of the entire loan relationship. The Company anticipates an increase in non-accrual loans at June 30, 2008 due to this lending relationship.

Other real estate owned at March 31, 2008 was \$954 thousand compared with \$647 thousand at March 31, 2007 and \$613 thousand at December 31, 2007. The increase was due to foreclosure on real estate collateral underlying one residential real estate loan.

Page 25

## Nonperforming Loans

Nonperforming loans include nonaccrual loans and loans 90 or more days past due and still accruing. Loans are placed on nonaccrual status upon becoming delinquent 90 days or more, 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, some 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 by Management as "performing nonaccrual" and are included in total nonaccrual loans. When the ability to fully collect nonaccrual loan principal is in doubt, payments received are applied against the principal balance of the loans until such time as full collection of the remaining recorded balance is expected. Any additional interest payments received after that time are recorded as interest income on a cash basis. Nonaccrual loans are reinstated to accrual status when improvements in credit quality eliminate the doubt as to the full collectibility of both interest and principal.

The following is a summary of nonperforming loans and OREO on the dates indicated (dollars in thousands):

	At March 31,		At
	2008	2007	December 31, 2007
Performing, nonaccrual loans	\$1,652	\$2,459	\$1,688
Nonperforming, nonaccrual loans	3,728	2,341	3,164
Total nonaccrual loans	5,380	4,800	4,852
Loans 90 days past due and still accruing	268	82	297
Total nonperforming loans	5,648	4,882	5,149
Other real estate owned	954	647	613
Total	\$6,602	\$5,529	\$5,762
As a percentage of total loans	0.27%	0.22%	0.23%

Nonaccrual loans increased \$528 thousand during the three months ended March 31, 2008. Twenty one loans comprised the \$5.4 million nonaccrual loans as of March 31, 2008. Ten of those loans were on nonaccrual status throughout the first three months of 2008, while the remaining eleven loans were placed on nonaccrual status during the three months ended March 31, 2008. The Company actively pursues full collection of nonaccrual loans.

The Company's residential real estate loan underwriting standards for first

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

mortgages limit the loan amount to no more than 80 percent of the appraised value of the property at the time of origination serving as collateral for the loan, and require verification of income of the borrower(s). The Company had no "sub-prime" loans as of March 31, 2008, December 31, 2007 and March 31, 2007. Of the loans 90 days past due and still accruing at March 31, 2008, \$-0- and \$185 thousand were residential real estate loans and automobile loans, respectively. Delinquent consumer loans on accrual status were as follows (\$ in thousands):

	At March 31,	
	2008	2007
Residential real estate loans:		
-----		
30-89 days delinquent:		
Dollar amount	\$28	\$1,863
Percentage of total residential real estate loans	0.01%	0.37%
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	\$2,523	\$1,771
Percentage of total automobile loans	0.54%	0.40%
90 or more days delinquent:		
Dollar amount	\$185	\$60
Percentage of total automobile loans	0.04%	0.01%

The Company had no restructured loans as of March 31, 2008, December 31, 2007 and March 31, 2007.

The amount of gross interest income that would have been recorded for nonaccrual loans for the three months ended March 31, 2008, if all such loans had been current in accordance with their original terms, was \$105 thousand, compared to \$110 thousand and \$102 thousand, respectively, for the first and fourth quarters of 2007.

Page 26

The amount of interest income that was recognized on nonaccrual loans from all cash payments, including those related to interest owed from prior years, made during the three months ended March 31, 2008, totaled \$61 thousand, compared to \$119 thousand and \$75 thousand, respectively, for the first and fourth quarters of 2007. These cash payments represent annualized yields of 4.41% for the first three months of 2008 compared to 10.14% and 6.15%, respectively, for the first and the fourth quarters of 2007.

Total cash payments received, including those recorded in prior years, which were applied against the book balance of nonaccrual loans outstanding at March 31, 2008, totaled \$0 thousand, compared with approximately \$4 thousand and \$9 thousand for the first and the fourth quarters of 2007, respectively.

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

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		
	March 31,		December 31,
	2008	2007	2007
Balance, beginning of period	\$55,799	\$59,023	\$56,631
Provision for loan losses	600	75	475
Provision for unfunded credit commitments	0	0	(400)
Loans charged off	(1,537)	(1,244)	(1,162)
Recoveries of previously charged off loans	665	728	255
Net loan losses	(872)	(516)	(907)
Balance, end of period	\$55,527	\$58,582	\$55,799
Components:			
Allowance for loan losses	52,234	54,889	52,506
Reserve for unfunded credit commitments	3,293	3,693	3,293
Allowance for credit losses	\$55,527	\$58,582	\$55,799
Allowance for loan losses / loans outstanding	2.13%	2.18%	2.10%

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 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

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

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, and other statistical data. 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 not 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. Management considers the \$55.5 million allowance for credit losses to be adequate as a reserve against losses as of March 31, 2008.

Page 27

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

Allocation of the Allowance for Credit Losses

(dollars in thousands)	At March 31, 2008		At December 31, 2007	
	Allocation of the Allowance Balance	Loans as Percent of Total Loans	Allocation of the Allowance Balance	Loans as Percent of Total Loans
Commercial	\$26,263	56%	\$27,233	56%
Real estate construction	7,798	3%	5,403	4%
Real estate residential	379	19%	388	19%
Consumer	4,688	22%	4,626	21%
Unallocated portion	16,399	--	18,149	--
<b>Total</b>	<b>\$55,527</b>	<b>100%</b>	<b>\$55,799</b>	<b>100%</b>

The allocation to loan portfolio segments changed from December 31, 2007 to

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

March 31, 2008. The decrease in allocation for commercial loans reflects a decrease in classified commercial loans. The increase in allocation to real estate construction loans reflects an increase in criticized construction loans outstanding, which receive higher allocations due to higher risk attributes, offset in part by lower volumes of non-criticized construction loans and construction loan commitments.

The unallocated portion of the allowance for credit losses declined \$1.8 million from December 31, 2007 to March 31, 2008. The unallocated allowance is established to provide for probable losses that have been incurred, but not reflected in the allocated allowance. At December 31, 2007 and March 31, 2008, Management's evaluations of the unallocated portion of the allowance for credit losses attributed significant risk levels to developing economic and business conditions (\$4.0 million and \$3.2 million, respectively), external competitive issues (\$2.0 million and \$1.6 million, respectively), internal credit administration considerations (\$4.2 million and \$3.5 million, respectively), and delinquency and problem loan trends (\$4.2 million and \$3.4 million, respectively). The change in the amounts allocated to the above qualitative risk factors was based upon Management's judgment, review of trends in its loan portfolio, levels of the allowance allocated to portfolio segments, and current economic conditions in its marketplace. Based on Management's analysis and judgment, the amount of the unallocated portion of the allowance for credit losses was \$18.1 million at December 31, 2007, compared to \$16.4 million at March 31, 2008.

### 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.

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.

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 in 2008. The lower short-term interest rates should lower the Company's 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 three months of 2008. Management continues to monitor the interest rate

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

environment as well as economic conditions and other factors it deems relevant in managing the Company's exposure to interest rate risk.

Page 28

Management assesses interest rate risk by comparing the Company's most likely earnings plan with various earnings models using many interest rate scenarios that differ in the direction of interest rate changes, the degree of change over time, the speed of change and the projected shape of the yield curve. For example, assuming a decrease of 100 bp in the federal funds rate and a decrease of 20 bp in the 10 year Constant Maturity Treasury Bond yield during the same period, earnings are estimated to improve 0.5% over the Company's most likely net income plan for the twelve months ending March 31, 2009. Conversely, assuming an increase of 100 bp in the federal funds rate and an increase of 40 bp in the 10 year Constant Maturity Treasury Bond yield during the same period, estimated earnings at risk would be approximately 1.8% of the Company's most likely net income plan for the twelve months ending March 31, 2009. 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.

Equity price risk can affect the Company. As an example, any preferred or common stock holdings, as permitted by banking regulations, can fluctuate in value. Management regularly assesses the extent and duration of any declines in market value, the causes of such declines, the likelihood of a recovery in market value, and its intent to hold securities until a recovery in value occurs. Declines in value of preferred or common stock holdings that are deemed "other than temporary" could result in loss recognition in the Company's income statement.

Fluctuations in the Company's common stock price can impact the Company's financial results in several ways. First, the Company has regularly repurchased and retired its common stock; the market price paid to retire the Company's common stock can affect the level of the Company's cash flows and shares outstanding for purposes of computing earnings per share. Second, the Company's common stock price impacts the number of dilutive equivalent shares used to compute diluted earnings per share. Third, fluctuations in the Company's common stock price can motivate holders of options to purchase Company common stock through the exercise of such options thereby increasing the number of shares outstanding. Finally, the amount of compensation expense associated with share based compensation fluctuates with changes in and the volatility of the Company's common stock price.

Other types of market risk, such as foreign currency exchange risk and commodity price risk, are not significant in the normal course of the Company's business activities.

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 March 31, 2008, investment securities available for sale totaled \$478 million, representing a decrease of \$55.1 million from December 31, 2007. The decrease is primarily attributable to principal payments and maturities. At March 31,

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

2008, indirect automobile loans totaled \$469 million, which were experiencing stable monthly principal payments of approximately \$18 million during the last three months. At March 31, 2008, \$463 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. All of the CMOs and MBSs are rated AAA based on their subordination structures without reliance on monoline insurance. Other than nominal amounts of FHLMC/ FNMA MBSs purchased for Community Reinvestment Act investment purposes, the Company has not purchased a CMO or MBS since November 2005. The CMOs and MBSs have been experiencing stable principal paydowns of approximately \$7 million per month during the last three months. In addition, at March 31, 2008, 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 \$17.8 million was outstanding. Additionally, the Company has access to borrowing from the Federal Reserve. The Company's short-term debt rating from Fitch Ratings is F1. Management expects the Company can access short-term debt financing if desired. The Company's long-term debt rating from Fitch Ratings is A with a stable outlook. Management is confident the Company could access additional long-term debt financing if desired.

The Company generates significant liquidity from its operating activities. The Company's profitability during the first quarter of 2008 and 2007 contributed substantial operating cash flows of \$31.6 million and \$29.5 million, respectively. In the first quarter of 2008, operating activities provided cash for \$9.8 million in shareholder dividends and \$20.2 million utilized to repurchase common stock. In the first quarter of 2007, operating activities provided a substantial portion of cash for \$10.3 million in shareholder dividends and \$22.1 million utilized to repurchase common stock.

Page 29

The Company's investing activities were also a net source of cash in the first quarter of 2008. Proceeds from maturing investment securities of \$89.1 million were only partially reinvested, for a net increase in cash of \$85.2 million. This cash inflow, \$53.3 million in net loan repayments, and proceeds from sale of Federal Reserve Bank of San Francisco ("FRB") stock and Visa common stock provided substantial cash to reduce short-term borrowings by \$163.3 million. During the first quarter 2008, the Federal Deposit Insurance Corporation ("FDIC") approved the Bank's application for continued deposit insurance coverage upon the Bank's withdrawal from the Federal Reserve System. The Bank terminated its membership with the Federal Reserve Bank of San Francisco and the FRB redeemed the Bank's FRB stock. The Bank is now subject to examination by the FDIC. The Bank also remains subject to examination by the California Commissioner of Financial Institutions. As a bank holding company, the Company remains subject to examination by the FRB. Customers' deposits declined \$70.2 million as competition for deposits continued to be elevated in the first quarter of 2008. In the first three months of 2007, investing activities generated \$52.3 million. Sales and maturities, net of purchases, of investment securities were \$41.0 million. A \$44.8 million increase in short-term borrowings partially offset a \$72.4 million decrease in customers' deposits.

The Company anticipates maintaining its cash levels in 2008 mainly through profitability and retained earnings. It is anticipated that loan demand will be moderate to weak during the remainder of 2008, 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. 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 recent series of reductions in the federal funds rate resulted



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

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 California law. The amount that can be paid in any calendar year, without prior approval from the state regulatory agency, cannot exceed the net profits (as defined) for the preceding three calendar years less dividends paid. The Company believes that such restriction 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 its Common Stock in the open market with the intention of supporting shareholder returns and mitigating the dilutive impact of issuing new shares for employee stock award and option plans. These programs have been implemented to optimize the Company's use of equity capital and enhance shareholder value. Pursuant to these programs, the Company repurchased 424 thousand shares in the first quarter of 2008, 447 thousand shares in the first quarter of 2007, and 491 thousand shares in the fourth quarter of 2007.

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 \$399.1 million at March 31, 2008, a decrease of \$20.7 million or 4.9% from a year ago, however, an increase of \$4.5 million or 1.1% from December 31, 2007. The changes 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 increased to 9.19% at March 31, 2008, from 8.84% a year ago and 8.66% on December 31, 2007, because total assets decreased relatively more than stockholders' equity.

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

At March 31,	At	Minimum	Well-
-----	December 31,	Regulatory	Capitalized
2008	2007	Requirement	by Regulatory Definition
-----	-----	-----	-----

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

Tier I Capital	9.74%	9.64%	9.33%	4.00%	6.00%
Total Capital	11.04%	10.96%	10.64%	8.00%	10.00%
Leverage ratio	6.61%	6.42%	6.32%	4.00%	5.00%

The risk-based capital ratios increased at March 31, 2008, compared with March 31, 2007, due to a decline in risk-weighted assets, partially offset by a decrease in equity capital. The risk-based capital ratios increased at March 31, 2008, compared with December 31, 2007, due to an increase in equity capital and a decrease in risk-weighted assets.

Page 30

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

	At March 31,	At	Minimum	Well-
	-----	December 31,	Regulatory	Capitalized
	2008	2007	Requirement	by
	-----	-----	-----	Regulatory
	-----	-----	-----	Definition
	-----	-----	-----	-----
Tier I Capital	9.78%	9.80%	4.00%	6.00%
Total Capital	11.25%	11.26%	8.00%	10.00%
Leverage ratio	6.60%	6.49%	4.00%	5.00%

The risk-based capital ratios declined at March 31, 2008, compared with March 31, 2007, due to a decrease in equity capital, offset in part by a decline in risk-weighted assets. The risk-based capital ratios increased at March 31, 2008, compared with December 31, 2007, due to an increase in equity capital and a decrease in risk-weighted assets.

Capital ratios are reviewed by Management on a regular basis to ensure that capital exceeds the prescribed regulatory minimums and is adequate to meet the Company's 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

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

evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended, as of March 31, 2008. 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 March 31, 2008 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Page 31

### 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

In March 2008, the Bush administration outlined a sweeping plan to streamline financial regulation in the United States. The proposals would consolidate regulatory agencies and revamp oversight of the financial system. Some of the proposals would shift regulatory power from states to the federal government. The proposals would require passage of Congressional legislation. The impact of these proposals on the future regulation of the Company is uncertain at this time.

There are no other material changes to the risk factors disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

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

(a) None

(b) None

(c) Issuer Purchases of Equity Securities

The table below sets forth the information with respect to purchases made by or on behalf of Westamerica Bancorporation or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of common stock during the quarter ended March 31, 2008 (in thousands, except per share data).

	(c)	(d)
	Total	Maximum
	Number	Number
	of Shares	of Shares
(b)	Purchased	that May
(a)	Average	Yet Be
	as Part of	

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Period	Total Number of Shares Purchased	Price Paid per Share	Publicly Announced Plans or Programs*	Purchased Under the Plans or Programs
January 1 through January 31	149	\$45.56	149	1,224
February 1 through February 29	269	48.81	269	955
March 1 through March 31	6	49.42	6	949
Total	424	\$47.68	424	949

\* Includes 6 thousand, 3 thousand and 6 thousand shares purchased in January, February and March, respectively, by the Company in private transactions with the independent administrator of the Company's Tax Deferred Savings/Retirement Plan (ESOP). The Company includes the shares purchased in such transactions within the total number of shares authorized for purchase pursuant to the currently existing publicly announced program.

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

Shares were repurchased during the first quarter of 2008 pursuant to a program approved by the Board of Directors on August 23, 2007 authorizing the purchase of up to 2,000,000 shares of the Company's common stock from time to time prior to September 1, 2008.

Page 32

Item 3. Defaults upon Senior Securities

None

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

None

Item 5. Other Information

None

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

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

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 33

SIGNATURES

-----

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

WESTAMERICA BANCORPORATION  
(Registrant)

May 6, 2008

-----

Date

/s/ JOHN "ROBERT" THORSON

-----

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

Page 34

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

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

pursuant to Section 906 of the Sarbanes-Oxley  
Act of 2002