WESTAMERICA BANCORPORATION
Form 10-Q
May 05, 2006

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

FORM 10-Q

(Mark One)
[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2006

OR

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

For the transition period from __________ to __________

Commission file number: 001-9383

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

CALIFORNIA	94-2156203
(State or Other Jurisdiction of Incorporation or Organization)	(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 [x]   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 [x] 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 [x]

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

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

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FORWARD-LOOKING STATEMENTS

This report on Form 10-Q contains forward-looking statements about Westamerica Bancorporation for which it claims the protection of the safe harbor provisions contained in the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on Management's current knowledge and belief and include information concerning the Company's possible or assumed future financial condition and results of operations. A number of factors, some of which are beyond the Company's ability to predict or control, could cause future results to differ materially from those contemplated. These factors include but are not limited to (1) a slowdown in the national and California economies; (2) fluctuations in asset prices including, but not limited to, stocks, bonds, real estate, and commodities; (3) economic uncertainty created by terrorist threats and attacks on the United States, the actions taken in response, and the uncertain effect of these events on the national and regional economies; (4) changes in the interest rate environment; (5) changes in the regulatory environment; (6) significantly increasing competitive pressure in the banking industry; (7) operational risks including data processing system failures or fraud; (8) the effect of acquisitions and integration of acquired businesses; (9) volatility of rate sensitive deposits and investments; (10) asset/liability management risks and liquidity risks; (11) changes in liquidity levels in capital markets; and (12) changes in the securities markets. The reader is directed to the Company's annual report on Form 10-K for the year ended December 31, 2005, for further discussion of factors which could affect the Company's business and cause actual results to differ materially from those expressed in any forward-looking statement made in this report. The Company undertakes no obligation to update any forward-looking statements in this report.

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Part I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

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

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

See accompanying notes to unaudited condensed consolidated financial statements.
* Adjusted to adopt Financial Accounting Standard 123 (revised 2004), "Share-Based Payment." See

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

Three months ended
March 31,

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

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

See accompanying notes to unaudited condensed consolidated financial statements.
* Adjusted to adopt Financial Accounting Standard 123 (revised 2004), "Share-Based Payment." See Note 4.

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

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

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

See accompanying notes to unaudited condensed consolidated financial statements.
* Adjusted to adopt Financial Accounting Standard 123 (revised 2004), "Share-Based Payment." See Note 4.

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

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

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

See accompanying notes to unaudited condensed consolidated financial statements.
* Adjusted to adopt Financial Accounting Standard 123 (revised 2004), "Share-Based Payment." See Note 4.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. The results of operations reflect interim adjustments, all of which are of a normal recurring nature and which, in the opinion of Management, are necessary for a fair presentation of the results for the interim periods presented. The interim results for the three months ended March 31, 2006 and 2005 are not necessarily indicative of the results expected for the full year. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes as well as other information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

Note 2: Significant Accounting Policies.

Certain accounting policies underlying the preparation of these financial statements require Management to make estimates and judgments. These estimates and judgments may affect reported amounts of assets and liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. The most significant of these involve the Allowance for Loan Losses, which is discussed in Note 1 to the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

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

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

Note 3: Goodwill and Other Intangible Assets

The Company has recorded goodwill and other identifiable intangibles associated with purchase business combinations. Goodwill is not amortized, but is periodically evaluated for impairment. The Company did not recognize impairment during the three months ended March 31, 2006. Identifiable intangibles are amortized to their estimated residual values over their expected useful lives. Such lives and residual values are also periodically reassessed to determine if any amortization period adjustments are indicated. During the first quarter of 2006, no such adjustments were recorded.

In connection with the acquisition of Redwood Empire Bancorp ("REBC") in the first quarter of 2005, the Company recorded goodwill and identifiable intangibles of $109 million and $27 million, respectively, in accordance with the purchase method of accounting. The following tables summarize the Company's goodwill and identifiable intangible assets, as of January 1 and March 31 for 2006 and 2005 (dollars in thousands). In the first quarter of 2006 goodwill relating to the REBC acquisition was reduced by $193 related to stock options issued in connection with the acquisition and increased $5 related to accrued expenses.

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

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

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

At March 31, 2006, the estimated aggregate amortization of merchant draft processing intangible, in thousands of dollars, for the remainder of 2006 and annually through 2011 is $1,350, $1,500, $1,200, $962, $774, and $624, respectively. The weighted average amortization period for merchant draft processing intangibles is 11.92 years.

Note 4: Stock Options

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

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

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

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

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

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

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

*1 Measured using daily price changes of Company's stock over respective expected term of the option and the implied volatility derived from the market prices of the Company's stock and traded options.
*2 the expected life is the number of years that the company estimates that the options will be outstanding prior to exercise
*3 the risk-free rate for periods within the contractual term of the option is based on the US Treasury yield curve in effect at the time of the grant

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

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

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

A summary of option activity is presented below:

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

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

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

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

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

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

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

Note 5: Post Retirement Benefits

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

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

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

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

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

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

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

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

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

* Adjusted to adopt SFAS 123(R)

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

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

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

Westamerica Bancorporation and subsidiaries (the "Company") reported first quarter 2006 net income of $26.1 million or $.81 diluted earnings per share. These results compare to net income of $22.3 million or $.68 diluted earnings per share and $27.1 million or $.83 diluted earnings per share, respectively, for the first and fourth quarters of 2005. First quarter 2005 results include one month of operating results of Redwood Empire Bancorp ("REBC"), parent company of National Bank of the Redwoods, which was acquired on March 1, 2005. First quarter 2005 also included a loss on sale of available-for-sale investment securities totaling $2.8 million, net of tax, or $0.09 per diluted share outstanding.

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

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

* Adjusted to adopt SFAS 123(R)

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

Comparing the first three months of 2006 to the prior quarter, net income declined $1.0 million or 3.7%, due to lower net interest income (FTE) and lower noninterest income, offset by decreases in noninterest expense and the provision for income taxes. The lower net interest income (FTE) was caused by higher funding costs, the effect of two less accrual days and lower average earning assets, partially offset by higher yields on those assets. Noninterest income decreased $788 thousand or 5.5% due to seasonal declines in merchant card volumes, fewer processing days for deposit services, and $357 thousand life insurance proceeds in the fourth quarter of 2005. Noninterest expense declined $1.5 million or 5.6% primarily due to lower personnel costs. The income tax provision (FTE) decreased mainly due to lower earnings.

Net Interest Income

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

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

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

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

Interest and Fee Income

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

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

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

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

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

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

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

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

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

The loan portfolio decreased $1 million due to decreases in average balances of commercial loans (down $15 million) and direct consumer loans (down $5 million), offset by increases in average balances of construction loans (up $7 million), residential real estate loans (up $6 million) and indirect consumer loans (up $4 million.)

Interest Expense

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

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

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

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

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

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

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

Net Interest Margin (FTE)

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

	Three months ended	
	March 31,	December 31,

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

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

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

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Summary of Average Balances, Yields/Rates and Interest Differential

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

	For the three months e	
	March 31, 2006	
	Average Balance	Interest Income/ Expense
Assets:		
Money market assets and funds sold	$820	$1

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

(1) Net interest spread represents the average yield earned on earning assets minus the average rate paid on interest-bearing liabilities.
(2) Net interest margin is computed by calculating the difference between interest income and expense (annualized), divided by the average balance of earning assets.

For the three months e

	March 31, 2005	
	Average Balance	Interest Income/ Expense
Assets:		
Money market assets and funds sold	$709	$0
Investment securities:		
Available for sale		
Taxable	584,174	6,117
Tax-exempt (FTE)	270,411	4,950
Held to maturity		
Taxable	739,906	7,290
Tax-exempt (FTE)	549,020	8,683
Loans:		
Commercial:		
Taxable	349,171	5,701
Tax-exempt (FTE)	247,553	4,100
Commercial real estate	809,807	14,754
Real estate construction	45,737	810
Real estate residential	421,723	4,606
Consumer	500,719	6,365
Total loans	2,374,710	36,336
Total earning assets	4,518,930	63,376
Other assets	345,703	
Total assets	$4,864,633	
Liabilities and shareholders' equity:		
Deposits:		
Noninterest bearing demand	$1,314,485	$--
Savings and interest-bearing transaction	1,724,574	1,126
Time less than $100,000	271,461	1,238
Time $100,000 or more	406,034	1,993
Total interest-bearing deposits	2,402,069	4,357
Short-term borrowed funds	703,468	3,570
Debt financing and notes payable	26,881	430
Total interest-bearing liabilities	3,132,418	8,357
Other liabilities	44,103	
Shareholders' equity	373,627	
Total liabilities and shareholders' equity	$4,864,633	
Net interest spread (1)		
Net interest income and interest margin (2)		$55,019

(1) Net interest spread represents the average yield earned on earning assets minus the average rate paid on interest-bearing liabilities.
(2) Net interest margin is computed by calculating the difference between interest income and expense (annualized), divided by the average balance of earning assets.

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

(1) Net interest spread represents the average yield earned on earning assets minus the average rate paid on interest-bearing liabilities.
(2) Net interest margin is computed by calculating the difference between interest income and expense (annualized), divided by the average balance of earning assets.

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

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

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

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

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

Provision for Credit Losses

The level of the provision for credit losses during each of the periods presented reflects the Company's continued efforts to manage credit costs by enforcing underwriting and administration procedures and aggressively pursuing collection efforts with troubled debtors. The Company provided $150 thousand for credit losses in the first quarter of 2005, compared with $150 thousand in the fourth quarter and $300 thousand in the first quarter of 2005. The provision reflects the Company's loss experience and Management's assessment of credit risk in the loan portfolio for each of the periods presented. For further information regarding net credit losses and the allowance for loan losses, see the "Classified Loans" section of this report.

Noninterest Income

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

	Three months ended		
	March 31,		December 31,
	2006	2005	2005
Service charges on deposit accounts	$7,083	$6,927	$7,202
Merchant credit card fees	2,385	1,298	2,751
Debit card fees	828	697	865
ATM fees and interchange	678	624	653
Official check issuance income	334	225	310
Financial services commissions	298	279	380
Trust fees	282	273	275
Check sale income	200	289	176
Mortgage banking income	50	100	62
Securities losses	0	(4,903)	0
Other noninterest income	1,501	1,386	1,753
Total	$13,639	$7,195	$14,427

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

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

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

Noninterest Expense

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

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

* Reflects the adoption of SFAS 123(R)

Noninterest expense decreased $380 thousand or 1.5% in the first quarter of 2006 compared with the same period in 2005. The largest decline was salaries and incentives, which was down $625 thousand or 4.5% mainly due to a $211 thousand decrease in stock based compensation (Restricted Performance Shares ("RPS") and stock options), a $186 thousand decrease in regular salaries resulting from reduced full time equivalent employees, a $153 thousand decrease in retirement plan costs, and a $112 thousand decrease in employee incentives, partially offset by annual merit increases to continuing staff. Professional fees were down $263 thousand or 36.5% mainly because the first quarter of 2005 included legal fees associated with the REBC acquisition and higher audit fees. Other noninterest expense declined $249 thousand or 13.7% mainly due to lower cost of insurance. The $635 thousand increase in amortization of identifiable intangibles was attributable to the REBC acquisition. Occupancy expense increased $280 thousand 9.5% primarily due to a $289 thousand increase in rent, net of sublease income, resulting from the REBC acquisition and annual increases.

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

Provision for Income Tax

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

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

Classified Loans

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

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

At March 31,

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

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

Nonperforming Loans

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

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

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

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

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

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

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

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

The amount of interest income that was recognized on nonaccrual loans from all cash payments, including those related to interest owed from prior years, made during the three months ended March 31, 2006, totaled $60 thousand, compared to $165 thousand and $45 thousand, respectively, for the first and fourth quarters of 2005. These cash payments represent annualized yields of 4.15% for first three months of 2006 compared to 10.15% and 2.83%, respectively, for the first and the fourth quarter of 2005.

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

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

Allowance for Credit Losses

The Company's allowance for credit losses is maintained at a level considered adequate to provide for losses that can be estimated based upon specific and general conditions. These include conditions unique to individual borrowers, as well as overall credit loss experience, the amount of past due, nonperforming loans and classified loans, recommendations of regulatory authorities, prevailing economic conditions and other factors. A portion of the allowance is specifically allocated to impaired and other identified loans whose full collectibility is uncertain. Such allocations are determined by Management based on loan-by-loan analyses. A second allocation is based in part on quantitative analyses of historical credit loss experience, in which criticized and classified credit balances identified through an internal credit review process are analyzed using a linear regression model to determine standard loss rates. The results of this analysis are applied to current criticized and classified loan balances to allocate the reserve to the respective segments of the loan portfolio. In addition, loans with similar characteristics not usually criticized using regulatory guidelines are analyzed based on the historical loss rates and delinquency trends, grouped by the number of days the payments on these loans are delinquent. Last, allocations are made to general loan categories based on commercial office vacancy rates, mortgage loan foreclosure trends, agriculture commodity prices, and levels of government funding. The remainder of the reserve is considered to be unallocated and is established at a level considered necessary based on relevant economic conditions and available data, including unemployment statistics, unidentified economic and business conditions, the quality of lending management and staff, credit quality trends, concentrations of credit, and changing underwriting standards due to external competitive factors. Management considers the $59.5 million allowance for credit losses to be adequate as a reserve against losses as of March 31, 2006.

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

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

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

Asset and Liability Management

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

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

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

Management assesses interest rate risk by comparing the Company's most likely earnings plan with various earnings models using many interest rate scenarios that differ in the direction of interest rate changes, the degree of change over time, the speed of change and the projected shape of the yield curve. For example, assuming an increase of 200 bp in the federal funds rate and an increase of 156 bp in the 10 year Constant Maturity Treasury Bond yield during the same period, estimated earnings at risk would be approximately 4.7% of the Company's most likely net income plan for 2006. Simulation estimates depend on, and will change with, the size and mix of the actual and projected balance sheet at the time of each simulation.

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

Liquidity

The Company's principal sources of asset liquidity are investment securities available for sale and principal payments from investment securities held to maturities and consumer loans. At March 31, 2006, investment securities available for sale totaled $643 million. At March 31, 2006, residential real estate loans and indirect auto loans totaled $923 million. In addition, at March 31, 2006, the Company had customary lines for overnight borrowings from other financial institutions in excess of $700 million and a $35 million line of credit, under which $22.2 million was outstanding at March 31, 2006. As a member of the Federal Reserve System, the Company also has the ability to borrow from the Federal Reserve. The Company's short-term debt rating from Fitch Ratings is F1 with a stable outlook. Management expects the Company can access short-term debt financing if desired. The Company's long-term debt rating from Fitch Ratings is A with a stable outlook. Management expects the Company can access additional long-term debt financing if desired. The Company generates significant liquidity from its operating activities. The Company's profitability during the first three months of 2006 and 2005 contributed to substantial operating cash flows of $33.5 million and $32.5 million, respectively. In 2006, operating activities provided enough cash for $23.0 million of Company stock repurchases and $10.2 million in shareholder dividends. In 2005, operating activities provided a substantial portion of cash for $9.5 million in shareholder dividends, $3.2 million for repayment of long term debt and $20.4 million utilized to repurchase common stock.

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

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

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

Capital Resources

The current and projected capital position of the Company and the impact of capital plans and long-term strategies are reviewed regularly by Management. The Company repurchases shares of its common stock in the open market pursuant to stock repurchase plans approved by the Board with the intention of lessening the dilutive impact of issuing new shares under stock option plans, and other ongoing requirements. In addition, other programs have been implemented to optimize the Company's use of equity capital and enhance shareholder value. Pursuant to these programs, the Company collectively repurchased 429 thousand shares in the first quarter of 2006, 372 thousand shares in the first quarter of 2005, and 500 thousand shares in the fourth quarter of 2005.

The Company's capital position represents the level of capital available to support continued operations and expansion. The Company's primary capital resource is shareholders' equity, which was $429.4 million at March 31, 2006.

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

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

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

The risk-based capital ratios rose at March 31, 2006, compared with the first quarter of 2005, due to a decrease in risk-weighted assets and a decrease in goodwill. The risk-based capital ratios rose at March 31, 2006 from the previous quarter due to a decrease in risk-weighted assets.

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

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

Item 4. Controls and Procedures

The Company's principal executive officer and principal financial officer have evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended, as of March 31, 2006. Based upon their evaluation, the principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective. The evaluation did not identify any change in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2006 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There are no material changes to the risk factors disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

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

(a) None

(b) None

(c) Issuer Purchases of Equity Securities

The table below sets forth the information with respect to purchases made by or on behalf of Westamerica Bancorporation or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of common stock during the quarter ended March 31, 2006 (in thousands, except per share data).

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs*	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1 through January 31	95	$53.35	95	1,386
February 1 through February 28	265	53.94	265	1,121

March 1 through March 31	69	52.80	69	1,052
Total	429	$53.62	429	1,052

* Includes 6 thousand, 7 thousand and 4 thousand shares purchased in January, February and March, respectively, by the Company in private transactions with the independent administrator of the Company's Tax Deferred Savings/Retirement Plan (ESOP). The Company includes the shares purchased in such transactions within the total number of shares authorized for purchase pursuant to the currently existing publicly announced program.

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

Shares were repurchased during the first quarter of 2006 pursuant to a program approved by the Board of Directors on August 25, 2005 authorizing the purchase of up to 2,000,000 shares of the Company's common stock from time to time prior to September 1, 2006.

Item 3. Defaults upon Senior Securities

None

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

None

Item 5. Other Information

None

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Item 6. Exhibits and Reports on Form 8-K

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

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

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

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

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

SIGNATURES

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

WESTAMERICA BANCORPORATION
(Registrant)

May 5, 2006	/s/ John "Robert" Thorson
Date	John "Robert" Thorson Senior Vice President and Chief Financial Officer (Chief Financial and Accounting Officer)