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WESTAMERICA BANCORPORATION

Form 10-Q

May 04, 2007

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2007

OR

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

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

Commission file number: 001-9383

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

CALIFORNIA  
(State or Other Jurisdiction of  
Incorporation or Organization)

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

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

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

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

Yes

No

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

Large Accelerated Filer  Accelerated Filer  Non-Accelerated  
Filer

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

Yes

No

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

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of common stock, as of the latest practicable date:

Title of Class	Shares outstanding as of April 30, 2007
Common Stock, No Par Value	30,052,982

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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, 2006, for further discussion of factors which could affect the Company's business and cause actual results to differ materially from those expressed in any forward-looking statement made in this report. The Company undertakes no obligation to update any forward-looking statements in this report.

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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,
	2007	2006*	2006
<b>Assets:</b>			
Cash and cash equivalents	\$208,413	\$187,947	\$184,442
Money market assets	321	534	567
Investment securities available for sale	602,220	642,996	615,525

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Investment securities held to maturity, with market values of:			
\$1,142,426 at March 31, 2007	1,142,382		
\$1,282,823 at March 31, 2006		1,307,848	
\$1,155,736 at December 31, 2006			1,165,092
Loans, gross	2,519,898	2,639,968	2,531,734
Allowance for loan losses	(54,889)	(55,768)	(55,330)
	-----		
Loans, net of allowance for loan losses	2,465,009	2,584,200	2,476,404
Other real estate owned	647	0	647
Premises and equipment, net	29,643	32,535	30,188
Identifiable intangibles	21,108	25,130	22,082
Goodwill	121,719	121,719	121,719
Interest receivable and other assets	157,367	151,400	152,669
	-----		
Total Assets	\$4,748,829	\$5,054,309	\$4,769,335
	=====		
Liabilities:			
Deposits:			
Noninterest bearing	\$1,293,920	\$1,355,426	\$1,341,019
Interest bearing:			
Transaction	584,026	641,264	588,668
Savings	851,800	1,004,964	865,268
Time	714,626	737,532	721,779
	-----		
Total deposits	3,444,372	3,739,186	3,516,734
Short-term borrowed funds	776,781	784,639	731,977
Debt financing and notes payable	36,883	37,030	36,920
Liability for interest, taxes and other expenses	70,983	62,326	59,469
	-----		
Total Liabilities	4,329,019	4,623,181	4,345,100
	-----		
Shareholders' Equity:			
Authorized - 150,000 shares of common stock			
Issued and outstanding:			
30,158 at March 31, 2007	338,990		
31,544 at March 31, 2006		342,972	
30,547 at December 31, 2006			341,529
Deferred compensation	2,734	1,969	2,734
Accumulated other comprehensive income (loss)	3,593	(830)	1,850
Retained earnings	74,493	87,017	78,122
	-----		
Total Shareholders' Equity	419,810	431,128	424,235
	-----		
Total Liabilities and Shareholders' Equity	\$4,748,829	\$5,054,309	\$4,769,335
	=====		

See accompanying notes to unaudited condensed consolidated financial statements.

\* Adjusted to adopt SAB No. 108

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	Three months ended March 31,	
	2007	2006
Interest Income:		
Loans	\$40,167	\$41,106
Money market assets and funds sold	2	1
Investment securities available for sale		
Taxable	4,070	4,403
Tax-exempt	3,052	3,171
Investment securities held to maturity		
Taxable	6,268	7,829
Tax-exempt	5,815	5,957
Total interest income	59,374	62,467
Interest Expense:		
Transaction deposits	523	428
Savings deposits	1,409	898
Time deposits	7,305	5,916
Short-term borrowed funds	8,296	6,672
Debt financing and notes payable	578	598
Total interest expense	18,111	14,512
Net Interest Income	41,263	47,955
Provision for credit losses	75	150
Net Interest Income After Provision For Credit Losses	41,188	47,805
Noninterest Income:		
Service charges on deposit accounts	7,528	7,083
Merchant credit card	2,449	2,385
Debit card	895	828
Trust fees	337	282
Financial services commissions	310	298
Other	3,758	2,763
Total Noninterest Income	15,277	13,639
Noninterest Expense:		
Salaries and related benefits	12,568	13,258
Occupancy	3,291	3,232
Data processing	1,524	1,534
Furniture and equipment	1,138	1,266
Amortization of intangibles	975	1,040
Courier service	848	922
Professional fees	495	457
Other	3,825	3,774
Total Noninterest Expense	24,664	25,483
Income Before Income Taxes	31,801	35,961
Provision for income taxes	8,231	9,844

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Net Income	\$23,570	\$26,117
=====		
Average Shares Outstanding	30,342	31,688
Diluted Average Shares Outstanding	30,824	32,276
Per Share Data:		
Basic Earnings	\$0.78	\$0.82
Diluted Earnings	0.76	0.81
Dividends Paid	0.34	0.32

See accompanying notes to unaudited condensed consolidated financial statements.

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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, 2005	31,882	\$343,035	\$2,423	\$1,882	
Adjustment to initially apply SAB Statement No. 108, net of tax	--	--	--	--	
-----					
Balance at January 1, 2006	31,882	343,035	2,423	1,882	
Comprehensive income					
Net income for the period					
Other comprehensive income, net of tax:					
Net unrealized loss on securities available for sale				(2,712)	
Total comprehensive income					
Exercise of stock options	88	3,031			
Stock option tax benefits		280			
Restricted stock activity	1	454	(454)		
Stock based compensation		635			
Stock awarded to employees	2	182			
Purchase and retirement of stock	(429)	(4,645)			
Dividends					
-----					
Balance, March 31, 2006*	31,544	\$342,972	\$1,969	(\$830)	
=====					
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:					

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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

See accompanying notes to unaudited condensed consolidated financial statements.

\* Adjusted to adopt SAB No. 108

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

	For the three ended March 2007
Operating Activities:	
Net income	\$23,570
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	2,521
Credit loss provision	75
Amortization of loan fees, net of cost	(380)
Increase in interest income receivable	(588)
Increase in other assets	(6,140)
Increase in income taxes payable	7,630
(Decrease) increase in interest expense payable	(34)
Increase (decrease) in other liabilities	2,454
Stock option compensation expense	474
Stock option tax benefits	(134)
Writedown of property and equipment	4
Originations of loans for resale	0
Proceeds from sale of loans originated for resale	0
Net Cash Provided by Operating Activities	29,452
Investing Activities:	
Net repayments of loans	11,700
Purchases of investment securities available for sale	(12,972)
Proceeds from maturity of securities available for sale	31,322

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Proceeds from maturity of securities held to maturity	22,710
Purchases of FRB/FHLB securities	(40)
Proceeds from sale of FRB/FHLB stock	0
Purchases of property, plant and equipment	(375)
	-----
Net Cash Provided by Investing Activities	52,345
	-----
Financing Activities:	
Net decrease in deposits	(72,362)
Net increase in short-term borrowings	44,804
Repayments of notes payable and debt financing	(37)
Exercise of stock options	2,122
Stock option tax benefits	134
Repurchases/retirement of stock	(22,139)
Dividends paid	(10,348)
	-----
Net Cash Used in Financing Activities	(57,826)
	-----
Net Increase (Decrease) In Cash and Cash Equivalents	23,971
	-----
Cash and Cash Equivalents at Beginning of Period	184,442
	-----
Cash and Cash Equivalents at End of Period	\$208,413
	=====
Supplemental Disclosure of Noncash Activities:	
Loans transferred to other real estate owned	\$0
Supplemental Disclosure of Cash Flow Activity:	
Unrealized gain (loss) on securities available for sale, net	\$1,734
Interest paid for the period	18,078
Income tax payments for the period	600

See accompanying notes to unaudited condensed consolidated financial statements.

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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, 2007 and 2006 are not necessarily indicative of the results expected for the full year. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes as well as other information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

#### Note 2: Significant Accounting Policies.

Certain accounting policies underlying the preparation of these financial statements require Management to make estimates and judgments. These estimates and judgments may affect reported amounts of assets and liabilities, revenues



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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, 2006.

In July 2006, the Financial Accounting Standards Board issued Financial Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48). FIN 48 supplements FAS 109, "Accounting for Income Taxes," by defining the threshold for recognizing tax benefits in the financial statements as "more likely than not" to be sustained by the applicable taxing authority. The benefit recognized for a tax position that meets the "more likely than not" criterion is measured based on the largest benefit that is more than 50% likely to be realized, taking into consideration the amounts and probabilities of the outcomes upon settlement. The Company adopted the provisions of FASB Interpretation No.48 Accounting for Uncertainty in Income Taxes, on January 1, 2007.

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" (SAB 108). SAB 108 was issued in order to eliminate the diversity of practice surrounding how public companies quantify financial statement misstatements. Prior to SAB 108, the Company had historically focused on the impact of misstatements on the income statement, including the reversing effect of prior year misstatements. With a focus on the income statement, the Company's analysis could lead to the accumulation of misstatements in the balance sheet. In applying SAB 108, the Company must also consider any accumulated misstatements in the balance sheet. SAB 108 permitted companies to initially apply its provisions by recording the cumulative effect of misstatements as adjustments to the balance sheet as of the first day of the fiscal year, with an offsetting adjustment recorded to retained earnings, net of tax. In applying SAB 108, the Company made an adjustment to reduce other liabilities by \$3 million. The \$3 million overstatement of other liabilities accumulated over seventeen years, as the liability accrued for stock-based compensation exceeded the amount paid to employees. These misstatements had not previously been material to the income statements for any of those prior periods. Comparative amounts as of March 31, 2006 have been adjusted to reflect adoption of SAB 108 as follows (in thousands):

	As Originally Reported	SAB 108 Adjustment	As Adjusted
Liability for interest, taxes and other expenses	\$65,326	(\$3,000)	\$62,326
Interest receivable and other assets	152,644	(1,244)	151,400
Retained earnings	85,261	1,756	87,017

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

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consolidated financial statements.

In February 2007, the FASB issued FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities -- Including an Amendment of FASB Statement No. 115 ("FAS 159"). This standard permits entities to choose to measure many financial assets and liabilities and certain other items at fair value. An enterprise will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option may be applied on an instrument-by-instrument basis, with several exceptions, such as those investments accounted for by the equity method, and once elected, the option is irrevocable unless a new election date occurs. The fair value option can be applied only to entire instruments and not to portions thereof. FAS 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. The Company is currently evaluating the effects of adopting FAS 159 on its consolidated financial statements.

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### 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, 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 first quarter of 2007, no such adjustments were recorded.

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

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

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

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	March 31,			
	2007		2006	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Core Deposit Intangibles	\$24,383	(\$9,806)	\$24,383	(\$7,554)
Merchant Draft Processing Intangible	10,300	(3,769)	10,300	(1,999)
Total Intangible Assets	\$34,683	(\$13,575)	\$34,683	(\$9,553)

As of March 31, 2007, the current year and estimated future amortization expense for intangible assets was (\$ in thousands):

	Core Deposit Intangibles	Merchant Draft Processing Intangible	Total
Three months ended March 31, 2007 (actual)	\$555	\$420	\$975
Estimate for year ended December 31,			
2007	2,153	1,500	3,653
2008	2,021	1,200	3,221
2009	1,859	962	2,821
2010	1,635	774	2,409
2011	1,386	624	2,010
2012	1,230	500	1,730

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Note 4: Stock Options

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

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

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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,	
	2007	2006
Expected volatility*1	14%	16%
Expected life in years*2	4.0	4.0
Risk-free interest rate*3	4.89%	4.41%
Expected dividend yield	2.82%	2.63%
Fair value per award	\$6.02	\$6.54

\*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.

A summary of stock option activity is presented below:

	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
	=====		

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	2006		
Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	
Outstanding at January 1	3,269	\$39.13	
Granted	258	52.56	
Exercised	(88)	34.46	
Forfeited or expired	(13)	52.03	
Outstanding at March 31	3,426	40.21	5.9 years
Exercisable at March 31	2,700	37.06	5.1 years

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

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

	2006	
Shares (in thousands)	Weighted Average Grant Date Fair Value	

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	-----	
Nonvested at January 1	968	\$6.57
Granted	258	6.54
Vested	(487)	6.43
Forfeited	(13)	6.63
	-----	
Nonvested at March 31	726	6.65
	=====	

The total remaining unrecognized compensation cost related to nonvested awards as of March 31, 2007 is \$2.8 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, 2007 and 2006 and changes during the quarters ended on those dates, follows (in thousands):

	2007	2006
	-----	
Outstanding at January 1,	36	44
Granted	16	15
Exercised	(1)	(2)
Forfeited	0	0
	-----	
Outstanding at March 31,	51	57
	=====	

The compensation cost that was charged against income for the Company's restricted performance shares granted was \$160 thousand and \$177 thousand for the first quarter of 2007 and 2006, respectively.

There were no stock appreciation rights or incentive stock options granted in the first quarter of 2007 and 2006.

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 eligible employees electing early retirement until age 65. The Company pays a portion of these eligible early retirees' insurance premium which are determined at their date of retirement. The Company reimburses a portion of Medicare Part B premiums for all eligible retirees and spouses over age 65.

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

	For the three months ended March 31,	
	-----	
	2007	2006
	-----	

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Service cost	\$4	\$47
Interest cost	66	53
Amortization of unrecognized transition obligation	15	15
	-----	-----
Net periodic cost	\$85	\$115
	=====	=====

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

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Note 6: Accounting for Uncertainty in Income Taxes

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

Balance at January 1, 2007	\$792
Additions for tax positions taken in the current period	0
Reductions for tax positions taken in the current period	0
Additions for tax positions taken in prior years	0
Reductions for tax positions taken in prior years	0
Decreases related to settlements with taxing authorities	0
Decreases as a result of a lapse in statute of limitations	0
	-----
Balance at March 31, 2007	\$792
	=====

The Company does not anticipate any significant increase or decrease in unrecognized tax benefits during 2007. Unrecognized tax benefits at January 1, 2007 and March 31, 2007 include accrued interest and penalties of \$137 thousand. If recognized, the entire amount of the unrecognized tax benefits would affect the effective tax rate.

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

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WESTAMERICA BANCORPORATION

Financial Summary

(Dollars in thousands, except per share data)

	Three months ended	
	March 31,	
	2007	2006*
Net Interest Income (FTE)***	\$46,914	\$53,974
Provision for Credit Losses	75	150
Noninterest Income	15,277	13,639
Noninterest Expense	24,664	25,483
Provision for income taxes (FTE)***	13,882	15,863
<b>Net Income</b>	<b>\$23,570</b>	<b>\$26,117</b>
Average Shares Outstanding	30,342	31,688
Diluted Average Shares Outstanding	30,824	32,276
Shares Outstanding at Period End	30,158	31,544
<b>As Reported:</b>		
Basic Earnings Per Share	\$0.78	\$0.82
Diluted Earnings Per Share	0.76	0.81
Return On Assets	2.03%	2.10%
Return On Equity	23.04%	24.93%
Net Interest Margin (FTE)***	4.41%	4.73%
Net Loan (Recoveries) Losses to Average Loans	0.08%	0.04%
Efficiency Ratio**	39.7%	37.7%
<b>Average Balances:</b>		
Total Assets	\$4,713,173	\$5,054,256
Earning Assets	4,287,431	4,606,178
Total Loans, Gross	2,519,861	2,615,949
Total Deposits	3,427,010	3,784,436
Shareholders' Equity	414,957	424,832
<b>Balances at Period End:</b>		
Total Assets	\$4,748,829	\$5,054,309
Earning Assets	4,264,821	4,591,346
Total Loans, Gross	2,519,898	2,639,968
Total Deposits	3,444,372	3,739,186
Shareholders' Equity	419,810	431,128
<b>Financial Ratios at Period End:</b>		
Allowance for Loan Losses to Loans	2.18%	2.11%
Book Value Per Share	\$13.92	\$13.67
Equity to Assets	8.84%	8.53%
Total Capital to Risk Adjusted Assets	10.96%	10.73%
Dividends Paid Per Share	\$0.34	\$0.32
Dividend Payout Ratio	44%	40%

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



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elsewhere herein.

\* Adjusted to adopt SAB No. 108

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

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

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

Westamerica Bancorporation and subsidiaries (the "Company") reported first quarter 2007 net income of \$23.6 million or \$.76 diluted earnings per share. These results compare to net income of \$26.1 million or \$.81 diluted earnings per share and \$24.0 million or \$.77 diluted earnings per share, respectively, for the first and fourth quarters of 2006. The first quarter of 2007 included \$822 thousand in tax-exempt company owned life insurance proceeds, representing \$0.02 earnings per diluted share.

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

	Three months ended	
	March 31,	
	2007	2006
	Dec 31, 2006	
Net interest income (FTE)	\$46,914	\$53,974
Provision for credit losses	(75)	(150)
Noninterest income	15,277	13,639
Noninterest expense	(24,664)	(25,483)
Provision for income taxes (FTE)	(13,882)	(15,863)
Net income	\$23,570	\$26,117
Average diluted shares	30,824	32,276
Diluted earnings per share	\$0.76	\$0.81
Average total assets	\$4,713,173	\$5,054,256
Net income (annualized) to average total assets	2.03%	2.10%

Net income for the first quarter of 2007 was \$2.5 million or 9.8% less than the same quarter of 2006, primarily due to lower net interest income, partially offset by higher noninterest income, lower noninterest expense and a lower

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income tax provision. The decrease in net interest income (FTE) (down \$7.1 million or 13.1%) was primarily attributable to lower average earning assets and higher funding costs, partially offset by higher yields on interest-earning assets. The loan loss provision decreased \$75 thousand or 50.0% from a year ago, reflecting Management's assessment of credit risk for the loan portfolio. Noninterest income increased \$1.6 million or 12.0% mainly due to higher service charges on deposit accounts and \$822 thousand in life insurance proceeds. Noninterest expense decreased \$819 thousand or 3.2% mostly due to lower personnel costs. The provision for income taxes (FTE) declined \$2.0 million or 12.5% largely due to lower pretax income and tax-exempt nature of gain on company owned life insurance.

Comparing the first three months of 2007 to the prior quarter, net income declined \$388 thousand or 1.6%, due to lower net interest income (FTE), offset by higher noninterest income, 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 increased \$1.5 million or 11.1% largely due to higher fee income earned on deposit accounts and life insurance proceeds. Noninterest expense increased \$172 thousand or 0.7%. The income tax provision (FTE) decreased mainly due to lower earnings and tax-exempt nature of life insurance proceeds.

### 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,	
	2007	2006
Interest and fee income	\$59,374	\$62,467
Interest expense	(18,111)	(14,512)
FTE adjustment	5,651	6,019
Net interest income (FTE)	\$46,914	\$53,974
Average earning assets	\$4,287,431	\$4,606,178
Net interest margin (FTE)	4.41%	4.73%

Approximately eighty percent of the Company's revenue (FTE) 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 2007 decreased \$7.1 million or 13.1% from the same period in 2006 to \$46.9 million, mainly due to lower average earning assets (down \$319 million) and rates on interest-bearing liabilities (up 64 basis points ("bp")) rising more rapidly than yields on earning assets (up 11 bp). Interest deposit competition within the banking industry has caused deposit costs to rise, while competitive rates

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on loans have not changed significantly.

Comparing the first quarter of 2007 with the previous quarter, net interest income (FTE) declined \$2.1 million or 4.3%, primarily due to lower average earning assets (down 79.2 million), the effect of two less accrual days, higher average federal funds purchased (up \$79.1 million), and higher rates on interest-bearing liabilities (up 15 bp), partially offset by higher yields on earning assets (up 5 bp).

### Interest and Fee Income

Interest and fee income (FTE) for the first quarter of 2007 declined \$3.5 million or 5.1% from the same period in 2006. The decrease was caused by lower average earning assets (down \$318.7 million), partially offset by higher yields on those assets (up 11 bp) and higher loan fee income (up \$97 thousand).

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The average yield on the Company's earning assets increased from 6.00% in the first quarter of 2006 to 6.11% in the same period in 2007. The composite yield on loans rose 14 bp to 6.66% primarily due to increases in the average yields on construction loans (up 139 bp), indirect automobile loans (up 45 bp), direct consumer loans (up 95 bp), residential real estate loans (up 10 bp) and commercial loans (up 7 bp).

The investment portfolio yield increased 12 bp to 5.35%, caused by increases in the average yield on corporate and other securities (up 109 bp) and U.S. government sponsored entity obligations (up 24 bp). Partially offsetting these increases were a 4 bp decrease in the average yield on municipal securities.

Average earning assets for the first quarter of 2007 declined \$319 million compared to the same period in 2006. The loan portfolio decreased \$96 million mainly due to declines in commercial loans (down \$67 million), commercial real estate loans (down \$22 million) and direct consumer loans (down \$13 million), partially offset by a \$21 million increase in average indirect automobile loans.

The Company has allowed the investment portfolio to decline due to the current interest rate environment, which has very narrow spreads between current interest rates on similar securities and on incremental funding sources.

Average investments declined \$223 million for the first quarter of 2007 compared to the same period in 2006 due to decreased average balances of mortgage backed securities and collateralized mortgage obligations (down \$133 million), municipal securities (down \$35 million), U.S. government sponsored entity obligations (down \$29 million) and corporate and other securities (down \$26 million).

Comparing the first quarter of 2007 with the previous quarter, interest and fee income (FTE) was down \$1.5 million or 2.2%. The decrease largely resulted from a lower volume of average earning assets, partially offset by rising yields on those assets.

The average yield on earning assets for the first three months of 2007 was 6.11% compared with 6.07% in the fourth quarter of 2006. The loan portfolio yield for the first quarter of 2007 compared with the previous quarter was higher by 5 bp, due to increases in yields on commercial real estate loans (up 9 bp), indirect automobile loans (up 9 bp) and residential real estate loans (up 5 bp).

The investment portfolio yield rose by 6 bp. The increase resulted from higher average yields on corporate and other securities (up 75 bp) and municipal securities (up 4 bp).

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Average earning assets decreased \$79 million or 1.8% for the first quarter of 2007 compared with the previous quarter due to a \$52 million decline in the investment portfolio and a \$28 million decrease in the loan portfolio. Lower average investment balances were mainly attributable to mortgage backed securities and collateralized mortgage obligations (down \$28 million), municipal securities (down \$14 million) and corporate and other securities (down \$9 million).

The loan portfolio decline was primarily due to decreases in average balances of commercial loans (down \$18 million), commercial real estate loans (down \$15 million) and residential real estate loans (down \$8 million), offset by an \$18 million increase in the average balance of indirect automobile loans.

### Interest Expense

Interest expense in the first quarter of 2007 increased \$3.6 million or 24.8% compared with the same period in 2006. The increase was attributable to higher rates paid on the interest-bearing liabilities, partially offset by lower average interest-bearing liabilities.

The average rate paid on interest-bearing liabilities increased from 1.82% in the first quarter of 2006 to 2.46% in 2007. The average rate on federal funds purchased rose 80 bp and rates on deposits increased as well, including those on certificates of deposit ("CDs") over \$100 thousand, which rose 106 bp; on retail CDs, which went up by 89 bp; and on preferred money market savings accounts, which rose an average of 220 bp.

Interest-bearing liabilities decreased \$244 million or 7.6% for the first quarter of 2007 over the same period of 2006 due to a highly competitive environment for deposits. A \$357 million decline in deposits were mostly due to lower average balances of money market savings (down \$151 million), money market checking accounts (down \$65 million), regular savings (down \$46 million), retail CDs (down \$35 million). Partially offsetting these declines was a \$48 million increase in federal funds purchased.

Comparing the first quarter of 2007 with the previous quarter, interest expense rose \$628 thousand or 3.6%, due to higher rates paid on interest-bearing liabilities, partially offset by lower average interest-bearing liabilities.

Rates paid on liabilities averaged 2.46% during the first three months of 2007 compared with 2.32% in the fourth quarter of 2006. The most significant rate increases were preferred money market savings accounts (up 80 bp), CDs over \$100 thousand which rose 9 bp and retail CDs which increased by 11 bp.

Average interest-bearing liabilities declined \$14 million or 0.5% over the fourth quarter of 2006. Average deposits declined \$126 million or 3.6% mainly due to decreases in average balances of money market savings accounts (down \$36 million), CDs over \$100 thousand (down \$21 million), and regular savings (down \$11 million). A \$79 million increase in average federal funds purchased partially offset these decreases.

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.

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### 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,	
	2007	2006
Yield on earning assets	6.11%	6.00%
Rate paid on interest-bearing liabilities	2.46%	1.82%
Net interest spread	3.65%	4.18%
Impact of all other net noninterest bearing funds	0.76%	0.55%
Net interest margin	4.41%	4.73%

During the first quarter of 2007, the net interest margin declined 32 bp compared with the same period in 2006. Rates paid on interest-bearing liabilities increased faster than the yields on earning assets, resulting in a 53 bp decline in net interest spread. The decline in the net interest spread was mitigated by the higher net interest margin contribution from noninterest bearing funding sources. While the average balance of these sources decreased \$85 million or 6.3%, their value increased 21 bp, from 55 bp in the first quarter of 2006 to 76 bp in the first quarter of 2007, because of the higher earning asset yields at which they could be invested.

The net interest margin declined by 8 bp when compared with the fourth quarter of 2006. Earning asset yields increased 4 bp, however, the cost of interest-bearing liabilities rose by 14 bp, resulting in a 10 bp decrease in the interest spread. Although noninterest bearing funding sources decreased \$62 million or 4.6%, their margin contribution increased by 2 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).

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	For the three months ended March 31, 2007	
	Average Balance	Interest Income/ Expense
<b>Assets:</b>		
Money market assets and funds sold	\$710	\$2
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	900,625	15,935
Real estate construction	70,710	1,765
Real estate residential	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

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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.

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	For the three months ended March 31, 2006	
	Average Balance	Interest Income/ Expense
<b>Assets:</b>		
Money market assets and funds sold	\$820	\$1
Investment securities:		
Available for sale		
Taxable	411,109	4,403
Tax-exempt (1)	254,839	4,645
Held to maturity		
Taxable	735,649	7,829
Tax-exempt (1)	587,812	9,125
Loans:		
Commercial:		
Taxable	359,147	7,371
Tax-exempt (1)	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 (1)	2,615,949	42,483
	-----	-----
Total earning assets (1)	4,606,178	68,486
Other assets	448,078	
	-----	-----
Total assets	\$5,054,256	
	=====	
<b>Liabilities and shareholders' equity:</b>		
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
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	

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Total liabilities and shareholders' equity	----- \$5,054,256 =====
Net interest spread (1) (2)	
Net interest income and interest margin (1) (3)	\$53,974 =====

(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.

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	For the three months ended December 31, 2006	
	Average Balance	Interest Income/ Expense
	-----	
<b>Assets:</b>		
Money market assets and funds sold	\$775	\$2
<b>Investment securities:</b>		
Available for sale		
Taxable	382,217	4,115
Tax-exempt (1)	248,609	4,493
Held to maturity		
Taxable	611,267	6,599
Tax-exempt (1)	576,283	8,853
<b>Loans:</b>		
Commercial:		
Taxable	330,410	7,163
Tax-exempt (1)	233,580	3,765
Commercial real estate	915,577	16,361
Real estate construction	73,204	1,882
Real estate residential	511,572	5,981
Consumer	483,181	7,298
	-----	-----
Total loans (1)	2,547,524	42,450
	-----	-----
Total earning assets (1)	4,366,675	66,512
Other assets	427,025	
	-----	-----
Total assets	\$4,793,700	
	=====	
<b>Liabilities and shareholders' equity:</b>		
<b>Deposits:</b>		
Noninterest bearing demand	\$1,332,213	\$--
Savings and interest-bearing		



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transaction	1,489,774	1,689
Time less than \$100,000	226,002	1,773
Time \$100,000 or more	505,390	5,821
	-----	
Total interest-bearing deposits	2,221,166	9,283
Short-term borrowed funds	717,114	7,622
Debt financing and notes payable	36,941	578
	-----	
Total interest-bearing liabilities	2,975,221	17,483
Other liabilities	68,669	
Shareholders' equity	417,597	
	-----	
Total liabilities and shareholders' equity	\$4,793,700	
	=====	
Net interest spread (1) (2)		
Net interest income and interest margin (1) (3)		\$49,029
		=====

(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.

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

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

	Three months ended March 3 compared with three mon ended March 31, 2006	
	Volume	Rate
	-----	-----
Interest and fee income:		
Money market assets and funds sold	\$0	\$1
Investment securities:		
Available for sale		
Taxable	(366)	33
Tax-exempt (1)	(354)	154
Held to maturity		
Taxable	(1,683)	122
Tax-exempt (1)	(207)	(76)
Loans:		
Commercial:		

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Taxable	(956)	189
Tax-exempt (1)	(340)	(43)
Commercial real estate	(399)	(481)
Real estate construction	(174)	252
Real estate residential	(59)	120
Consumer	78	728
-----		
Total loans (1)	(1,850)	765
(Decrease) increase in interest and fee income (1)	(4,460)	999
-----		
Interest expense:		
Deposits:		
Savings and interest-bearing transaction	(194)	800
Time less than \$100,000	(225)	499
Time \$100,000 or more	(150)	1,265
-----		
Total interest-bearing deposits	(569)	2,564
-----		
Short-term borrowed funds	276	1,348
Debt financing and notes payable	(19)	(1)
-----		
(Decrease) increase in interest expense	(312)	3,911
-----		
Increase (Decrease) in Net Interest Income (1)	(\$4,148)	(\$2,912)
=====		

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

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	Three months ended March 3 compared with three mon ended December 31, 200	
	Volume	Rate
-----		
Interest and fee income:		
Money market assets and funds sold	\$0	\$0
Investment securities:		
Available for sale		
Taxable	(60)	15
Tax-exempt (1)	(274)	226
Held to maturity		
Taxable	(346)	15
Tax-exempt (1)	(43)	32
Loans:		
Commercial:		
Taxable	(511)	(48)
Tax-exempt (1)	(107)	54
Commercial real estate	(620)	194
Real estate construction	(103)	(14)
Real estate residential	(120)	95

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Consumer	77	51
Total loans (1)	(1,384)	332
Total (decrease) increase in interest and fee income (1)	(2,107)	620
Interest expense:		
Deposits:		
Savings and interest-bearing transaction	(85)	328
Time less than \$100,000	(97)	58
Time \$100,000 or more	(362)	112
Total interest-bearing deposits	(544)	498
Short-term borrowed funds	375	299
Debt financing and notes payable	(13)	13
(Decrease) increase in interest expense	(182)	810
Increase (Decrease) in Net Interest Income (1)	(\$1,925)	(\$190)

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

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Provision for Credit Losses

The level of the provision for credit losses during each of the periods presented reflects the Company's continued efforts to manage credit costs by enforcing underwriting and administration procedures and aggressively pursuing collection efforts with troubled debtors. The Company provided \$75 thousand for credit losses in the first quarter of 2007. In the fourth quarter of 2006, the provision for credit losses was \$75 thousand, of which \$70 thousand was allocated to loan losses and \$5 thousand was allocated to unfunded loan commitments. In the first quarter of 2006, the Company provided \$150 thousand for credit losses. 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,	Dec
	2007	2006

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Service charges on deposit accounts	\$7,528	\$7,083
Merchant credit card fees	2,449	2,385
Debit card fees	895	828
ATM fees	677	678
Trust fees	337	282
Official check issuance income	311	334
Financial services commissions	310	298
Check sale income	213	200
Mortgage banking income	30	50
Other noninterest income	2,527	1,501
	-----	-----
Total	\$15,277	\$13,639
	=====	=====

Noninterest income for the first quarter of 2007 rose by \$1.6 million or 12.0% from the same period in 2006. Service charges on deposit accounts increased due to management efforts to increase deposit accounts and minimize service charge waivers. Service charges on deposit accounts increased \$445 thousand or 6.3% mainly due to a \$689 thousand increase in overdraft fees, partially offset by declines in deficit fees charged on analyzed accounts (down \$160 thousand or 10.2%) and retail and business checking account service fees. Other noninterest income was higher by \$1.0 million or 68.4% mostly due to \$822 thousand in life insurance proceeds.

In the first quarter of 2007, noninterest income increased \$1.5 million or 11.1% compared with the previous quarter. Service charges on deposit accounts rose \$538 thousand or 7.7% mostly due to a \$315 thousand increase in overdraft fees and increased deficit fees charged on analyzed accounts. Other noninterest income increased \$1.2 million mainly due to \$822 thousand in life insurance proceeds. Merchant credit card income declined \$203 thousand or 7.7% primarily due to seasonally lower credit card draft volumes.

Noninterest Expense

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

	Three months ended	
	March 31,	
	2007	2006
	-----	-----
Salaries and related benefits	\$12,568	\$13,258
Occupancy	3,291	3,232
Data processing services	1,524	1,534
Equipment	1,138	1,266
Amortization of identifiable intangibles	975	1,040
Courier service	848	922
Professional fees	495	457
Telephone	360	432
Postage	410	410
Customer checks	248	290
Stationery and supplies	315	270
Advertising/public relations	228	234

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Loan expense	167	195
Operational losses	160	189
Correspondent service charges	225	183
Other noninterest expense	1,712	1,571
	-----	
Total	\$24,664	\$25,483
	=====	
Average full time equivalent staff	892	939
Noninterest expense to revenues (FTE)	39.66%	37.69%

Noninterest expense decreased \$819 thousand or 3.2% in the first quarter of 2007 compared with the same period in 2006. The largest decline was salaries and incentives, which was down \$690 thousand or 5.2% mainly due to a \$294 thousand decrease in regular salaries and a \$341 thousand decrease in employee benefit costs. The decrease in regular salaries was attributable to the effect of a smaller workforce through attrition, partially offset by annual merit increases to continuing staff. Equipment expense decreased \$128 thousand or 10.1% primarily due to a \$136 thousand decline in repair and maintenance expense. Other noninterest expense rose \$141 thousand or 9.0% mostly due to increases in amortization of investments in low-income housings as tax benefits are realized and internet banking expense.

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In the first three months of 2007, noninterest expense rose \$172 thousand or 0.7% compared with the fourth quarter of 2006. Salaries and related benefits rose \$163 thousand or 1.3% mainly due to a seasonal increase in payroll taxes, increases in regular salaries resulting from annual merit increases, and an increase in the cost of providing employee medical benefits. Other noninterest expense increased \$265 thousand or 18.3% mainly because the prior quarter included credits to correct overbillings for the debit card network fees. Offsetting these increases were decreases in operational losses (down \$160 thousand) and professional fees (down \$119 thousand or 19.4%). The decline in operational losses were attributable to a \$117 thousand decrease in sundry losses. Lower professional fees resulted from decreases in legal and accounting fees.

### Provision for Income Tax

During the first quarter of 2007, the Company recorded income tax expense (FTE) of \$13.9 million, compared with \$15.9 million and \$14.3 million for the first and fourth quarters of 2006, respectively. The current quarter provision represents an effective tax rate (FTE) of 37.1%, compared with 37.8% and 37.3% for the first and fourth quarters of 2006, respectively. The effective tax rate for the first quarter 2007 was reduced primarily due to tax-exempt company owned life insurance proceeds. The effective tax rate for the fourth quarter was reduced primarily due to tax refunds and other tax items.

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, and tax-free life insurance proceeds of \$822 thousand in the first quarter of 2007.

### Classified Loans and Other Real Estate Owned

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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 net realizable value (market value less disposition costs).

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

	At March 31,		Dec
	2007	2006	
Classified loans	\$18,439	\$28,878	
Other real estate owned	647	0	
Classified loans and other real estate owned	\$19,086	\$28,878	
Allowance for loan losses / classified loans	298%	193%	

Classified loans include loans graded "Substandard", "Doubtful" and "Loss" using regulatory guidelines. At March 31, 2007, \$18.1 million of loans are graded "Substandard" or 98.2% of total classified loans. Classified loans at March 31, 2007, decreased \$10.4 million or 36.1% from a year ago. The decline resulted from 11 loan payoffs totaling \$12.0 million, five upgrades totaling \$5.3 million, two charge-offs and a transfer to OREO, partially offset by 13 downgrades totaling \$11.1 million. A \$1.7 million or 8.6% decrease in classified loans from December 31, 2006 was generally due to three upgrades totaling \$1.1 million and a chargeoff, partially offset by three downgrades totaling \$1.3 million. Other real estate owned at March 31, 2007 and December 31, 2006 was \$647 thousand compared with none a year ago because collateral for one commercial real estate loan was foreclosed in the second quarter of 2006.

### 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.

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

	At March 31,		At
	2007	2006	December 31, 2006
Performing nonaccrual loans	\$2,459	\$3,232	\$4,404
Nonperforming, nonaccrual loans	2,341	2,993	61
Total nonaccrual loans	4,800	6,225	4,465
Loans 90 days past due and still accruing	82	29	65
Total nonperforming loans	4,882	6,254	4,530
Other real estate owned	647	0	647
Total	\$5,529	\$6,254	\$5,177
As a percentage of total loans	0.22%	0.24%	0.20%

Nonaccrual loans decreased \$335 thousand during the three months ended March 31, 2007. Ten loans comprised the \$4.8 million nonaccrual loans as of March 31, 2007. Six of those loans were on nonaccrual status throughout the first quarter 2007, while four of the loans were placed on nonaccrual status during the quarter. The Company actively pursues full collection of nonaccrual loans.

The Company had no "sub-prime" loans as of March 31, 2007, December 31, 2006 and March 31, 2006. Of the loans 90 days past due and still accruing at March 31, 2007, \$-0- and \$60 thousand were residential real estate loans and automobile loans, respectively.

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

The amount of gross interest income that would have been recorded for nonaccrual loans for the three months ended March 31, 2007, if all such loans had been current in accordance with their original terms, was \$110 thousand, compared to \$120 thousand and \$118 thousand, respectively, for the first and fourth quarters of 2006.

The amount of interest income that was recognized on nonaccrual loans from all cash payments, including those related to interest owed from prior years, made during the three months ended March 31, 2007, totaled \$119 thousand, compared to \$60 thousand and \$171 thousand, respectively, for the first and fourth quarters of 2006. These cash payments represent annualized yields of 10.14% for first three months of 2007 compared to 4.15% and 13.30%, respectively, for the first and the fourth quarter of 2006.

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Total cash payments received, including those recorded in prior years, which were applied against the book balance of nonaccrual loans outstanding at March 31, 2007, totaled approximately \$4 thousand, compared with \$32 thousand and \$0 for the first and the fourth quarters of 2006, 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 \$58.6 million allowance for credit losses to be adequate as a reserve against losses as of March 31, 2007.

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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,	
	2007	2006
Balance, beginning of period	\$59,023	\$59,537
Additions to the allowance charged to	75	150



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operating expense		
Provision for unfunded credit commitments	0	0
Loans charged off	(1,244)	(1,118)
Recoveries of previously charged off loans	728	887
	-----	-----
Net credit losses	(516)	(231)
	-----	-----
Balance, end of period	\$58,582	\$59,456
	=====	=====
Components:		
Allowance for loan losses	54,889	55,768
Reserve for unfunded credit commitments	3,693	3,688
	-----	-----
Allowance for credit losses	\$58,582	\$59,456
	=====	=====
Allowance for loan losses / loans outstanding	2.18%	2.11%

### 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 100 bp in the federal funds rate and an increase of 72 bp in the 10 year Constant Maturity Treasury Bond yield during the same period, estimated earnings at risk would be approximately 3.9% of the Company's most likely net income plan for the twelve months ended March 31, 2008. Conversely, assuming a decrease of 100 bp in the federal funds rate and a decrease of 36 bp in the 10 year Constant Maturity Treasury Bond yield during the same period, earnings are estimated to improve 1.1% over the Company's most likely income plan for the twelve months ended March 31, 2008. Simulation estimates depend on, and will change with, the size and mix of the actual and projected balance sheet at the time of each simulation.

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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 maturity and consumer loans. At March 31, 2007, investment securities available for sale totaled \$602 million. At March 31, 2007, indirect automobile loans totaled \$443 million, which were experiencing stable monthly principal payments in the range of \$17 million to \$20 million. In addition, at March 31, 2007, the Company had customary lines for overnight borrowings from other financial institutions in excess of \$700 million and a \$35 million line of credit, under which \$22 million was outstanding at March 31, 2007. 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 2007 and 2006 contributed to substantial operating cash flows of \$29.5 million and \$33.5 million, respectively. In 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. In 2006, operating activities provided enough cash for \$23.0 million of Company stock repurchases and \$10.2 million in shareholder dividends.

In the first three months of 2007, investing activities generated \$52.3 million, compared with \$75.8 million in the same period of 2006. In the first three months of 2007, sales and maturities, net of purchases, of investment securities were \$41.0 million. In the first three months of 2006, sales and maturities, net of purchases, of investment securities were \$44.0 million.

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The Company anticipates maintaining its cash levels in 2007 mainly through profitability and retained earnings. It is anticipated that loan demand will increase moderately in 2007, although such demand will be dictated by economic and competitive conditions. The growth of deposit balances is expected to exceed the anticipated growth in earning assets through the end of 2007. 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 2007 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 interest and principal on outstanding debt and the payment of dividends declared for shareholders. Substantially all of the Parent Company's revenues are obtained from service fees and dividends received from the Bank and, to a lesser extent, other subsidiaries. Payment of such dividends to the Parent Company by the Bank is limited under regulations for Federal Reserve member banks and

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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 repurchased 447 thousand shares in the first quarter of 2007, 429 thousand shares in the first quarter of 2006, and 410 thousand shares in the fourth quarter of 2006.

The Company's capital position represents the level of capital available to support continued operations and expansion. The Company's primary capital resource is shareholders' equity, which was \$419.8 million at March 31, 2007. This amount, which is reflective of the effect of the generation of earnings, offset by common stock repurchases, and dividends paid to shareholders, represents a decrease of \$11.3 million or 2.63% from a year ago, and a decrease of \$4.4 million or 1.04% from December 31, 2006. The Company's ratio of equity to total assets increased to 8.84% at March 31, 2007, from 8.53% a year ago. The shareholder's equity to total assets decreased at March 31, 2007, compared with 8.90% at December 31, 2006.

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

	At March 31, ----- 2007	2006	At ----- December 31, 2006	Re ----- Re
Tier I Capital	9.64%	9.41%	9.77%	
Total Capital	10.96%	10.73%	11.09%	
Leverage ratio	6.42%	6.18%	6.42%	

The risk-based capital ratios rose at March 31, 2007, compared with the first quarter of 2006, primarily due to decreases in risk-weighted assets. The risk-based capital ratios decreased at March 31, 2007 from the previous quarter due to a decrease in equity capital.

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

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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, 2007. Based upon their evaluation, the principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective. The evaluation did not identify any change in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2007 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, 2006.

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

(a) None

(b) None

### (c) Issuer Purchases of Equity Securities

The table below sets forth the information with respect to purchases made by or on behalf of Westamerica Bancorporation or any "affiliated purchaser" (as defined in Rule 10b-18(a) (3) under the Securities Exchange Act of 1934), of common stock during the quarter ended March 31, 2007 (in thousands, except per share data).

(c)	(d)
Total	Maximum
Number	Number
of Shares	of Shares

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Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	Purchased as Part of Publicly Announced Plans or Programs*	that May Yet Be Purchased Under the Plans or Programs
January 1 through January 31	154	\$49.27	154	1,325
February 1 through February 28	197	50.46	197	1,128
March 1 through March 31	96	47.87	96	1,032
Total	447	\$49.49	447	1,032

\* Includes 9 thousand, 14 thousand and 3 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 2007 pursuant to a program approved by the Board of Directors on August 24, 2006 authorizing the purchase of up to 2,000,000 shares of the Company's common stock from time to time prior to September 1, 2007.

Item 3. Defaults upon Senior Securities

None

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

None

Item 5. Other Information

None

Item 6. Exhibits

The list of Exhibits is incorporated by reference from the Exhibit Index appearing below.

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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 4, 2007  
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/s/ John "Robert" Thorson  
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Date

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

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Exhibit Index

- 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