WESTAMERICA BANCORPORATION
Form 10-Q
August 04, 2006

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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 June 30, 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 [ ]

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

Title of Class	Shares Outstanding as of August 1, 2006

Common Stock, No Par Value	31,186,948

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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.

Part I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	At June 30, 2006	At June 30, 2005*	At December 31, 2005*
Assets:			
Cash and cash equivalents	$188,670	$194,749	$209,273
Money market assets	534	540	534
Investment securities available for sale	620,294	691,609	662,388
Investment securities held to maturity, with market values of:			
$1,210,561 at June 30, 2006	1,243,936		
$1,358,083 at June 30, 2005		1,349,555	
$1,323,782 at December 31, 2005			1,337,216
Loans, gross	2,580,612	2,687,566	2,672,221
Allowance for loan losses	(55,684)	(59,862)	(55,849)
Loans, net of allowance for loan losses	2,524,928	2,627,704	2,616,372
Other real estate owned	656	40	0

Premises and equipment, net	31,785	34,864	33,221
Identifiable intangibles	24,114	28,297	26,170
Goodwill	121,719	124,122	121,907
Interest receivable and other assets	150,250	147,924	150,478
Total Assets	$4,906,886	$5,199,404	$5,157,559
Liabilities:			
Deposits:			
Noninterest bearing	$1,330,280	$1,377,680	$1,419,313
Interest bearing:			
Transaction	606,633	614,246	658,667
Savings	951,819	1,114,631	1,022,645
Time	758,315	726,283	745,476
Total deposits	3,647,047	3,832,840	3,846,101
Short-term borrowed funds	746,517	828,280	775,173
Debt financing and notes payable	36,993	40,354	40,281
Liability for interest, taxes and other expenses	54,598	50,002	60,940
Total Liabilities	4,485,155	4,751,476	4,722,495
Shareholders' Equity:			
Authorized - 150,000 shares of common stock			
Issued and outstanding:			
31,201 at June 30, 2006	343,490		
32,593 at June 30, 2005		344,932	
31,882 at December 31, 2005			343,035
Deferred compensation	2,734	2,423	2,423
Accumulated other comprehensive income:			
Unrealized (loss) gain on securities available for sale, net	(4,771)	8,185	1,882
Retained earnings	80,278	92,388	87,724
Total Shareholders' Equity	421,731	447,928	435,064
Total Liabilities and Shareholders' Equity	$4,906,886	$5,199,404	$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 Note 4.

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

	Three months ended June 30,		Six months June 3
	2006	2005*	2006

Interest Income:			
Loans	$41,160	$39,941	$82,266
Money market assets and funds sold	2	1	2
Investment securities available for sale			
Taxable	4,227	4,760	8,631
Tax-exempt	3,150	3,313	6,321
Investment securities held to maturity			
Taxable	7,407	7,264	15,236
Tax-exempt	5,931	6,177	11,888
Total interest income	61,877	61,456	124,344
Interest Expense:			
Transaction deposits	427	340	855
Savings deposits	924	970	1,822
Time deposits	6,661	4,144	12,577
Short-term borrowed funds	7,695	4,655	14,366
Notes payable	578	637	1,176
Total interest expense	16,285	10,746	30,796
Net Interest Income	45,592	50,710	93,548
Provision for credit losses	150	300	300
Net Interest Income After Provision For Credit Losses	45,442	50,410	93,248
Noninterest Income:			
Service charges on deposit accounts	7,186	7,542	14,269
Merchant credit card	2,392	2,417	4,778
Debit card	876	811	1,704
Financial services commissions	363	339	661
Trust fees	287	309	569
Mortgage banking	49	67	99
Securities losses	0	0	0
Other	2,908	3,994	5,621
Total Noninterest Income	14,061	15,479	27,701
Noninterest Expense:			
Salaries and related benefits	13,559	13,956	26,816
Occupancy	3,267	3,230	6,499
Data processing	1,531	1,539	3,065
Equipment	1,315	1,313	2,581
Amortization of intangibles	1,016	1,092	2,056
Courier service	909	964	1,831
Professional fees	833	604	1,291
Other	3,915	4,391	7,690
Total Noninterest Expense	26,345	27,089	51,829
Income Before Income Taxes	33,158	38,800	69,120
Provision for income taxes	8,664	11,080	18,509
Net Income	$24,494	$27,720	$50,611
Comprehensive Income:			
Unrealized (loss) gain on securities available for sale, net	(3,941)	4,674	(6,653)

Securities losses/impairment losses included in net income	0	0	0
Comprehensive Income	$20,553	$32,394	$43,958
Average Shares Outstanding	31,364	32,759	31,525
Diluted Average Shares Outstanding	31,932	33,364	32,103
Per Share Data:			
Basic Earnings	$0.78	$0.85	$1.61
Diluted Earnings	0.77	0.83	1.58
Dividends Paid	0.32	0.30	0.64

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

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

	Shares	Common Stock	Deferred Compensation	Accumulated Compre-hensive Income
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	89,538		
Stock issued for stock options	156	4,700		
Stock option tax benefits		1,114		
Restricted stock activity	21	797	277	
Stock based compensation		1,055		
Purchase and retirement of stock	(863)	(7,477)		
Dividends				
Unrealized loss on securities available for sale, net				(1,453)
Balance, June 30, 2005*	32,593	$344,932	$2,423	$8,185
Balance, December 31, 2005*	31,882	$343,035	$2,423	$1,882
Net income for the period				
Stock issued for stock options	219	7,881		
Stock option tax benefits		617		
Restricted stock activity	20	727	311	
Stock based compensation		1,274		
Purchase and retirement of stock	(920)	(10,043)		

Dividends				
Unrealized loss on securities available for sale, net				(6,653)
Balance, June 30, 2006	31,201	$343,491	$2,734	($4,771)

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

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

	For the six ended Jun
	2006
Operating Activities:	
Net income	$50,611
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation of fixed assets	1,956
Amortization of intangibles and other assets	3,196
Credit loss provision	300
Net (amortization) deferral of loan fees, net of cost	(258)
Decrease (increase) in interest income receivable	2,284
Increase in other assets	(3,928)
(Decrease) increase in income taxes payable	(1,655)
Increase in interest expense payable	1,384
Increase (decrease) in other liabilities	1,571
Stock option compensation expense	1,274
Excess tax benefits from stock-based compensation	(617)
Gain on sales of investment securities	0
Writedown of equipment	186
Gain on sale of real estate	0
Gain on sales of other assets	0
Originations of loans for resale	(500)
Proceeds from sale of loans originated for resale	505
Net Cash Provided by Operating Activities	56,309
Investing Activities:	
Net cash used in mergers and acquisitions	0
Net repayments of loans	90,740
Purchases of investment securities available for sale	(5,020)
Proceeds from maturity of securities available for sale	35,448
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	93,281
Purchases of FRB/FHLB stock	(67)
Proceeds from sales of FRB/FHLB stock	139
Purchases of property, plant and equipment	(706)
Proceeds from sale of real estate	0
Net Cash Provided by Investing Activities	213,815
Financing Activities:	
Net decrease in deposits	(199,054)
Net (decrease) increase in short-term borrowings	(28,656)
Repayments of notes payable	(3,288)
Exercise of stock options	7,754
Tax benefit from stock-based compensation	617
Purchase and retirement of stock	(47,813)
Dividends paid	(20,287)
Net Cash Used in Financing Activities	(290,727)
Net (Decrease) Increase In Cash and Cash Equivalents	(20,603)
Cash and Cash Equivalents at Beginning of Period	209,273
Cash and Cash Equivalents at End of Period	$188,670
Supplemental Disclosure of Noncash Activities:	
Loans transferred to other real estate owned	$656
Supplemental Disclosure of Cash Flow Activity:	
Unrealized loss on securities available for sale, net	($3,941)
Interest paid for the period	32,181
Income tax payments for the period	20,860
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 - merchant draft processing	--
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.

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 six months ended June 30, 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 Credit Losses, which is discussed in Note 1 to the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 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.

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No.48 (FIN 48), "Accounting Uncertainty in Income Taxes". This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No.109, Accounting for Income Taxes. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The evaluation of a tax position in accordance with this Interpretation is a two-step process. The first step is recognition: The enterprise determines whether it is more likely than not that a tax position will be sustained. The second step is measurement: A tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Differences between tax positions taken in a tax return and amounts recognized in the financial statements will generally result in: a) An increase in a liability for income taxes payable (or a reduction of an income tax refund receivable) or b) A reduction in a deferred tax asset or an increase in a deferred tax liability c) Both (a) and (b). FIN 48 is effective fiscal years beginning after December 15, 2006. The Company does not expect the adoption of this new standard to have a material impact on its results of operations.

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 six months ended June 30, 2006. Identifiable intangibles are amortized to their estimated residual values over their expected useful lives. Such lives and residual values are also periodically reassessed to determine if any amortization period adjustments are indicated. During the second 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 table summarizes the Company's goodwill and identifiable intangible assets, as of January 1 and June 30 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. In the second quarter of 2005 goodwill relating to the REBC acquisition was reduced by $3,381, of which $2,027 represents the premium received on the required divestiture of a former REBC branch office in Lake County. The balance of the adjustment related to stock options issued in connection with the acquisition.

	At January 1, 2006	Additions	Reductions	At June 30, 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	(1,148)	(8,120)

Merchant Draft Processing Intangible	10,300	0	0	10,300
Accumulated Amortization	(1,541)	0	(908)	(2,449)
Net	$26,170	$0	($2,056)	$24,114

	At January 1, 2005	Additions	Reductions	At June 30, 2005
Goodwill	$22,968	$108,507	($3,381)	$128,094
Accumulated Amortization	(3,972)	0	0	(3,972)
Net	$18,996	$108,507	($3,381)	$124,122
Core Deposit Intangibles	$7,783	$16,600	$0	$24,383
Accumulated Amortization	(4,889)	0	(880)	(5,769)
Merchant Draft Processing Intangible	0	10,300	0	10,300
Accumulated Amortization	0	0	(617)	(617)
Net	$2,894	$26,900	($1,497)	$28,297

At June 30, 2006, the estimated aggregate amortization of core deposit intangibles, in thousands of dollars, for the remainder of 2006 and annually through 2011 is $1,132, $2,153, $2,021, $1,859, $1,636, and $1,386, respectively. The weighted average amortization period for core deposit intangibles is 12.12 years.

At June 30, 2006, the estimated aggregate amortization of merchant draft processing intangible, in thousands of dollars, for the remainder of 2006 and annually through 2011 is $900, $1,500, $1,200, $962, $774, and $624, respectively. The weighted average amortization period for merchant draft processing intangibles is 11.67 years.

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Note 4: Stock Options

The Company grants stock options and restricted performance shares (RPSs) to employees in exchange for employee services, pursuant to the shareholder-approved 1995 Stock Option Plan, which was amended and restated in 2003. Stock options are granted with an exercise price equal to the fair market value of the related common stock 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 FASB Statement No.123(revised 2004), Share-Based Payment (SFAS No. 123(R)) 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's recognition of compensation expense for restricted performance share grants has not changed with the adoption of SFAS No. 123(R). The Company has recognized compensation expense for historical restricted performance share grants over the relevant attribution period. Restricted performance share grants have no exercise price, therefore, the intrinsic value is measured using an estimated per share price at the vesting date for each restricted performance share. The estimated per share price is adjusted during the attribution period to reflect actual stock price performance. The Company's obligation for unvested outstanding restricted performance share grants is classified as a liability until the vesting date, at which time the issued shares become classified as shareholders' equity.

The scope of SFAS 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. SFAS 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 June 30, 2006. The intrinsic value is calculated as the difference between the market value as of June 30, 2006 and the exercise price of the shares. The market value as of June 30, 2006 was $48.97 as reported by the NASDAQ Global Market:

	Options Outstanding				Options Exercisabl		
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)	We Av Re Co Li (y
$10 - 15	11	$394	1.9	$13.09	11	$394	
15 - 19	1	24	1.9	16.76	1	24	
19 - 20	104	3,079	0.6	19.25	104	3,079	
20 - 25	408	10,188	3.6	24.00	408	10,188	
32 - 33	226	3,656	1.6	32.79	226	3,656	

33 - 35	260	3,747	2.6	34.56	260	3,747
35 - 40	653	6,504	5.1	39.02	653	6,504
40 - 45	451	3,705	6.6	40.75	451	3,705
45 - 50	449	0	7.6	49.61	298	0
50 - 55	724	0	8.9	52.55	159	0
$10 - 55	3,287	$31,297	5.7	40.32	2,571	$31,297

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. During the six months ended June 30, 2006 and 2005, the Company granted 258 thousand and 560 thousand stock options, respectively. The following weighted average assumptions were used in the option pricing to value stock options granted in the periods indicated:

	For the Six months ended June 30, 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 275 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 three months and six months ended June 30, 2006 and 2005 and at June 30, 2006 and 2005 is summarized in the following tables (in thousands, except per share data):

	For the three months ended June		
	2006		200
	Intrinsic Value Method	Fair Value Method	Intrinsic Value Method
Income before income taxes	$33,798	$33,158	$39,132
Net income	24,868	24,494	27,914
Net earnings per share - basic	$0.80	$0.78	$0.85
Net earnings per share - diluted share	0.78	0.77	0.84
Cash flow provided by operations	$23,131	$22,797	$15,498
Cash flow used in financing activities	(160,449)	(160,115)	(19,849)

	For the six months ended June 3		
	2006		200
	Intrinsic Value Method	Fair Value Method	Intrinsic Value Method
Income before income taxes	$70,394	$69,120	$69,833
Net income	51,356	50,611	50,648
Net earnings per share - basic	$1.63	$1.61	$1.56
Net earnings per share - diluted share	1.60	1.58	1.53
Cash flow provided by operations	$56,925	$56,310	$48,051
Cash flow used in financing activities	(291,343)	(290,728)	(178,806)

A summary of option activity during the six months ended June 30, 2006 is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at January 1, 2006	3,269,086	$39.13	
Granted	258,000	52.56	
Exercised	(217,386)	35.69	
Forfeited or expired	(22,408)	52.03	
Outstanding at June 30, 2006	3,287,292	40.32	5.7
Exercisable at June 30, 2006	2,570,743	37.09	4.9 years

A summary of the Company's nonvested share activity during the six months ended June 30, 2006 is presented below.

	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2006	967,947	
Granted	258,000	
Vested	(486,990)	
Forfeited	(22,408)	
Nonvested at June 30, 2006	716,549	$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 six months ended June 30, 2006 and 2005 was $6.54 and $6.61 per share, respectively. The total remaining unrecognized compensation cost related to nonvested awards as of June 30, 2006 is $3.3 million and the weighted average period over which the cost is expected to be recognized is 1.7 years.

The total intrinsic value of options exercised during first half 2006 and 2005 was $3.6 million and $3.3 million, respectively. The total fair value of RPSs that vested during first half 2006 and 2005 was $1.0 million and $905 thousand, respectively. The actual tax benefit realized for the tax deductions from the exercise of options totaled $615 thousand and $141 thousand, respectively, for first half 2006 and 2005.

A summary of the status of the Company's restricted performance shares as of June 30, 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	(19,946)	(20,637)
Forfeited	0	(7,983)
Outstanding at June 30,	38,720	49,870

As of June 30, 2006 and 2005, the restricted performance shares had a weighted-average contractual life of 1.78 and 1.72 years, respectively. The compensation cost that was charged against income for the Company's restricted performance shares granted was $372 thousand and $600 thousand for the six month ended June 30, 2006 and 2005, respectively. There were no stock appreciation rights or incentive stock options granted in the first half 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 six months ended June 30.

	For the six months ended June 30,	
	2006	2005
	(In thousands)	
Service cost	$94	$139
Interest cost	106	105
Amortization of unrecognized transition obligation	30	31
Net periodic cost	$230	$275

The Company does not contribute to any post-retirement benefit plans.

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

	Three months ended June 30,		Six months June 30
	2006	2005*	2006
Net Interest Income (FTE)***	$51,503	$57,023	$105,477
Provision for Loan Losses	(150)	(300)	(300)
Noninterest Income:			
Securities losses	0	0	0
Deposit service charges and other	14,061	15,479	27,701
Total noninterest income	14,061	15,479	27,701
Noninterest Expense	(26,345)	(27,089)	(51,829)

Provision for income taxes (FTE)***	(14,575)	(17,393)	(30,438)
Net Income	$24,494	$27,720	$50,611
Average Shares Outstanding	31,364	32,759	31,525
Diluted Average Shares Outstanding	31,932	33,364	32,103
Shares Outstanding at Period End	31,201	32,593	31,201
As Reported:			
Basic Earnings Per Share	$0.78	$0.85	$1.61
Diluted Earnings Per Share	$0.77	$0.83	$1.58
Return On Assets	1.99%	2.15%	2.04%
Return On Equity	23.12%	25.81%	24.02%
Net Interest Margin (FTE)***	4.58%	4.84%	4.65%
Net Loan (Recoveries) Losses to Average Loans	0.04%	0.04%	0.04%
Efficiency Ratio**	40.2%	37.4%	38.9%
Average Balances:			
Total Assets	$4,948,443	$5,170,029	$5,001,349
Earning Assets	4,515,728	4,719,635	4,560,953
Total Gross Loans	2,588,220	2,670,663	2,602,084
Total Deposits	3,652,030	3,906,875	3,718,233
Shareholders' Equity	424,999	430,796	424,916
Balances at Period End:			
Total Assets	$4,906,886	$5,199,404	
Earning Assets	4,445,376	4,729,270	
Total Gross Loans	2,580,612	2,687,566	
Total Deposits	3,647,047	3,832,840	
Shareholders' Equity	421,731	447,928	
Financial Ratios at Period End:			
Allowance for Loan Losses to Loans	2.16%	2.23%	
Book Value Per Share	$13.52	$13.74	
Equity to Assets	8.59%	8.61%	
Total Capital to Risk Adjusted Assets	10.93%	10.37%	
Dividends Paid Per Share	$0.32	$0.30	$0.64
Dividend Payout Ratio	42%	36%	41%

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 Financial Accounting Standard 123 (revised 2004), "Share-Based Payment." See Note 4.

** 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 second quarter 2006 net income of $24.5 million or $.77 diluted earnings per share. These results compare to net income of $27.7 million or $0.83 per share for the same period of 2005.

On a year-to-date basis, the Company reported net income for the six months ended June 30, 2006 of $50.6 million or diluted earnings per share of $1.58, compared with $50.0 million or $1.51 per share for the same period of 2005. The second quarter of 2005 represents the first full quarter of operations following the March 1, 2005 acquisition of Redwood Empire Bancorp ("REBC").

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

	Three months ended June 30,		Six months June 30,
	2006	2005*	2006
Net interest income (FTE)	$51,503	$57,023	$105,477
Provision for loan losses	(150)	(300)	(300)
Noninterest income	14,061	15,479	27,701
Noninterest expense	(26,345)	(27,089)	(51,829)
Provision for income taxes (FTE)	(14,575)	(17,393)	(30,438)
Net income	$24,494	$27,720	$50,611
Average diluted shares	31,932	33,364	32,103
Diluted earnings per share	$0.77	$0.83	$1.58
Average total assets	4,948,443	5,170,029	5,001,349
Net income (annualized) to average total assets	1.99%	2.15%	2.04%

* Adjusted to adopt SFAS 123(R)

Net income for the second quarter of 2006 was $3.2 million or 11.6% less than the same quarter of 2005, primarily attributable to lower net interest income (FTE) and noninterest income, partially offset by decreases in provision for loan losses, noninterest expense and income tax provision (FTE). The decrease in net interest income (FTE) (down $5.5 million or 9.7%) was the net result of lower average interest-earning assets and higher funding costs, partially offset by higher yields on earning assets and higher loan fee income. The 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 decreased $1.4 million or 9.2% mainly because the prior year period included a $1.3 million gain on sale of real estate. Noninterest expense decreased $744 thousand or 2.7%. The provision for income taxes (FTE) decreased $2.8 million or 16.2% primarily due to lower profitability, a higher proportion of interest revenue attributable to tax-exempt municipal loans and securities, higher tax credits and refunds, and other tax preference items.

Comparing the first six months of 2006 to the prior year, net income increased $580 thousand or 1.2%, mostly due to lower loan loss provision, higher noninterest income, lower noninterest expense and lower tax provision (FTE), partly offset by a decrease in net interest income (FTE). The lower net interest income (FTE) was mainly caused by a lower volume of average interest-earning assets and higher funding costs, partially offset by higher yields on earnings assets and higher loan fee income. The loan loss provision decreased $300 thousand or 50.0% to reflect Management's view on credit risk. Noninterest income rose mostly because the 2005 period included $4.9 million in losses on sales of securities, which were realized in managing the Company's interest rate risk position following the REBC acquisition. Noninterest expense declined $1.1 million or 2.1%. The income tax provision (FTE) decreased $695 thousand or 2.2% primarily due to a higher proportion of interest revenue attributable to tax-exempt municipal loans and securities, higher tax credits and refunds, and other tax preference items.

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Net Interest Income

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

	Three months ended June 30,		Six months June 30,
	2006	2005	2006
Interest and fee income	$61,877	$61,456	$124,344
Interest expense	(16,285)	(10,746)	(30,796)
FTE adjustment	5,911	6,313	11,929
Net interest income (FTE)	$51,503	$57,023	$105,477
Average earning assets	$4,515,728	$4,719,635	$4,560,953
Net interest margin (FTE)	4.58%	4.84%	4.65%

The Company's primary source of revenue is 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) decreased during the second quarter of 2006 by $5.5 million or 9.7% from the same period in 2005 to $51.5 million, mainly due to lower average earning assets (down $204 million) and higher rates paid on interest-bearing liabilities (up 77 basis points "bp"), partially offset by higher yields on earning assets excluding loan fees (up 24 bp), a lower volume of interest-bearing liabilities (down $166 million) and higher loan fee income.

Comparing the first six months of 2006 with the same period of 2005, net interest income (FTE) decreased $6.6 million or 5.9%, primarily due to lower average earning assets and higher rates paid on interest-bearing liabilities, partially offset by higher yields on earning assets excluding loan fees and higher loan fee income.

Interest and Fee Income

Interest and fee income (FTE) for the second quarter of 2006 increased $19 thousand from the same period in 2005. The increase was caused by higher yields on earning assets and increased loan fee income (up $243 thousand), offset by lower average earning assets.

The average earning asset decrease of $204 million for the second quarter of 2006 compared to the same period in 2005 was due to declines in most earning asset categories except for growth in residential real estate loans (up $15 million) and indirect consumer loans (up $9 million). The loan portfolio declined $82 million mostly due to decreases in commercial real estate loans (down $43 million), commercial loans (down $42 million) and personal credit lines (down $15 million). Competitive loan pricing and loosened underwriting standards in the banking industry are limiting the opportunity to originate commercial loans which will remain profitable throughout the duration of the loans, in Management's opinion. Current interest rate spreads between loan origination yields and the rates paid on deposits and other funding sources are very narrow. Such interest rate spreads could be pressured in the near-term as funding costs rise while many loan yields are generally fixed in nature. As a result, the Company has not take an aggressive posture relative to current loan and investment portfolio growth.

Average total investments decreased $121 million for the second quarter of 2006 compared with the same period in 2005 primarily due to paydowns, calls, and maturities of mortgage backed securities and collateralized mortgage obligations (down $51 million), municipal securities (down $37 million) and U.S. government sponsored entity obligations (down $27 million).

The average yield on the Company's earning assets, excluding loan fee income, increased from 5.71% in the second quarter of 2005 to 5.95% in the same period in 2006 (up 24 bp). The composite yield on loans, excluding loan fees, rose 33 bp to 6.48% primarily due to increases in construction loans (up 163 bp), commercial loans (up 75 bp) and personal credit lines (up 188 bp).

The investment portfolio yield rose 9 bp to 5.25%, mainly attributable to increases in the yield on U.S. government sponsored entity obligations (up 26 bp) and mortgage backed securities and collateralized mortgage obligations (up 21 bp), partially offset by declines in the yields on corporate securities and municipal securities (down 9 bp).

Comparing the first two quarters of 2006 with the corresponding period a year ago, interest and fee income (FTE) was up $5.1 million or 3.9%. The increase largely resulted from higher yields on earning assets and increased loan fee income (up $74 thousand), partially offset by lower average earning assets.

The average yield on earning assets excluding loan fees for the first half of 2006 was 5.96% compared with 5.66% in the corresponding period of 2005. The loan portfolio yield excluding loan fees for the first half of 2006 compared with the same period of 2005 was higher by 37 bp, due to increases in personal credit lines (up 175 bp), construction loans (up 158 bp) and commercial loans (up 88 bp).

The investment portfolio yield rose by 30 bp. The increase resulted mostly from higher yields on U.S. government sponsored obligation (up 24 bp) and mortgage backed securities and collateralized mortgage obligations (up 22 bp), net of decreases in yields on corporate securities and municipal securities (down 11 bp).

Average earning assets decreased $58 million or 1.3% for the first half of 2006 compared with the same period of 2005, due to a lower volume of the investment portfolio, offset by loan growth mostly as a result of the REBC acquisition. In the first six months of 2005, the Company sold approximately $196 million in securities available for sale to manage its interest rate risk position in light of the REBC acquisition. Average investments declined $138 million mainly due to decreases in U.S. government sponsored entity obligations (down $83 million) and mortgage backed securities and collateralized mortgage obligations (down $40 million). The loan portfolio grew $79 million, the net result of increases in residential real estate loans (up $51 million), commercial real estate loans (up $35 million) and construction loans (up $15 million), partially offset by declines in commercial loans (down $13 million) and personal credit lines (down $10 million).

Interest Expense

Interest expense in the second quarter of 2006 increased $5.5 million or 51.5% compared with the same period in 2005. The increase was attributable to higher rates paid on the interest-bearing liabilities, partially offset by a decrease in those liabilities.

The average rate paid on interest-bearing liabilities increased from 1.30% in the second quarter of 2005 to 2.07% in the same quarter of 2006. Rates paid on most liabilities moved with general market conditions. The average rate on federal funds purchased rose 197 bp. Rates on deposits increased as well, including those on CDs over $100 thousand, which rose 172 bp; and on retail CDs, which went up by 60 bp.

Interest-bearing liabilities declined $166 million or 5.0% for the second quarter of 2006 over the same period of 2005. Most categories of deposits declined including money market savings (down $147 million), retail CDs (down $64 million), partially offset by a $55 million increase in CDs over $100 thousand. Federal funds purchased and long term debt declined $36 million and $3 million, respectively. The decline was more than offset by a $58 million increase in other short-term borrowings, which represent customer balances in sweep and repurchase facilities.

Comparing the first half of 2006 to the corresponding period of 2005, interest expense rose $11.7 million or 61.2%, due to higher rates paid on interest-bearing liabilities, partially offset by a decline in such liabilities.

Rates paid on liabilities averaged 1.94% during the first six months of 2006 compared to 1.19% in the first six months of 2005. Rates on most interest-bearing liabilities moved up with the general trend in the market. The average rate paid on federal funds purchased rose 196 bp. Rates on most deposits were also higher. CDs over $100 thousand rose 166 bp and retail CDs increased by 53 bp.

Interest-bearing liabilities declined $46.4 million or 1.4% over the first half of 2005. Money market savings and retail CDs decreased $118 million and $41 million, respectively. Federal funds decreased $20 million. The decline was partially offset by increases in CDs over $100 thousand (up $75 million), other short-term borrowings, which represent customer balances in sweep and repurchase facilities (up $48 million), and long-term debt (up $4 million).

In all periods, the Company has attempted to continue increasing the balances of more profitable, lower-cost transaction accounts in order to minimize the cost of funds.

Net Interest Margin (FTE)

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

	Three months ended June 30,		Six months June 30
	2006	2005	2006
Yield on earning assets	6.01%	5.75%	6.00%
Rate paid on interest-bearing liabilities	2.07%	1.30%	1.94%
Net interest spread	3.94%	4.45%	4.06%
Impact of all other net noninterest bearing funds	0.64%	0.39%	0.59%
Net interest margin	4.58%	4.84%	4.65%

During the second quarter of 2006, the net interest margin declined 26 bp compared to the same period in 2005. Rates paid on interest-bearing liabilities climbed faster than yields on earning assets, resulting in a 51 bp decline in net interest spread. The decline in the net interest spread was partially mitigated by the higher value of noninterest bearing funding sources. While the average balance of these sources decreased $71 million or 5.1%, their value increased 25 bp because of the higher market rates of interest at which they could be invested.

The net interest margin in the first half of 2006 declined by 22 bp when compared with the corresponding period of 2005. Earning asset yields increased 30 bp and the cost of interest-bearing liabilities rose by 75 bp, resulting in a 45 bp decrease in the interest spread. Noninterest bearing funding sources declined $15 million or 1.1%, their margin contribution increased by 23 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 and the resulting rates paid. 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 (dollars in thousands).

	For the three months June 30, 2006	
	Average Balance	Interest Income/ Expense
Assets:		
Money market assets and funds sold	$848	$2
Investment securities:		
Available for sale		
Taxable	398,032	4,227
Tax-exempt	252,617	4,605
Held to maturity		
Taxable	691,209	7,407
Tax-exempt	584,802	9,057
Loans:		
Commercial:		
Taxable	355,136	7,386
Tax-exempt	247,225	3,978
Commercial real estate	914,373	16,590
Real estate construction	77,151	1,674
Real estate residential	511,521	5,898
Consumer	482,814	6,964
Total loans	2,588,220	42,490
Total earning assets	4,515,728	67,788
Other assets	432,715	
Total assets	$4,948,443	
Liabilities and shareholders' equity		
Deposits:		
Noninterest bearing demand	$1,316,927	$--
Savings and interest-bearing transaction	1,588,822	1,351
Time less than $100,000	242,793	1,581
Time $100,000 or more	503,488	5,080
Total interest-bearing deposits	2,335,103	8,012
Short-term borrowed funds	766,936	7,695
Debt financing and notes payable	37,015	578
Total interest-bearing liabilities	3,139,054	16,285
Other liabilities	67,463	
Shareholders' equity	424,999	
Total liabilities and shareholders' equity	$4,948,443	
Net interest spread (1)		
Net interest income and interest margin (2)		$51,503

(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 June 30, 2005	
	Average Balance	Interest Income/ Expense
Assets:		
Money market assets and funds sold	$664	$1
Investment securities:		
Available for sale		
Taxable	444,661	4,760
Tax-exempt	266,299	4,873
Held to maturity		
Taxable	731,214	7,264
Tax-exempt	606,134	9,523
Loans:		
Commercial:		
Taxable	394,956	6,921
Tax-exempt	249,472	4,132
Commercial real estate	956,931	16,905
Real estate construction	80,254	1,446
Real estate residential	496,133	5,589
Consumer	492,917	6,355
Total loans	2,670,663	41,348
Total earning assets	4,719,635	67,769
Other assets	450,394	
Total assets	$5,170,029	
Liabilities and shareholders' equity:		
Deposits:		
Noninterest bearing demand	$1,387,984	$--
Savings and interest-bearing transaction	1,763,669	1,310
Time less than $100,000	307,118	1,542
Time $100,000 or more	448,104	2,602
Total interest-bearing deposits	2,518,891	5,454
Short-term borrowed funds	745,499	4,655
Debt financing and notes payable	40,377	637
Total interest-bearing liabilities	3,304,767	10,746
Other liabilities	46,482	
Shareholders' equity	430,796	
Total liabilities and shareholders' equity	$5,170,029	
Net interest spread (1)		

Net interest income and interest margin (2)	$57,023

(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 six months end June 30, 2006	
	Average Balance	Interest Income/ Expense
Assets:		
Money market assets and funds sold	$835	$2
Investment securities:		
Available for sale		
Taxable	404,534	8,631
Tax-exempt	253,722	9,249
Held to maturity		
Taxable	713,479	15,236
Tax-exempt	586,298	18,182
Loans:		
Commercial:		
Taxable	357,142	14,757
Tax-exempt	250,250	8,073
Commercial real estate	918,606	33,404
Real estate construction	77,750	3,361
Real estate residential	510,279	11,793
Consumer	488,058	13,585
Total loans	2,602,085	84,973
Total earning assets	4,560,953	136,273
Other assets	440,396	
Total assets	$5,001,349	
Liabilities and shareholders' equity:		
Deposits:		
Noninterest bearing demand	$1,336,214	$--
Savings and interest-bearing transaction	1,631,228	2,677
Time less than $100,000	248,398	3,041
Time $100,000 or more	502,393	9,536
Total interest-bearing deposits	2,382,019	15,254
Short-term borrowed funds	752,622	14,366
Debt financing and notes payable	37,569	1,176

Total interest-bearing liabilities	3,172,210	30,796
Other liabilities	68,009	
Shareholders' equity	424,916	
Total liabilities and shareholders' equity	$5,001,349	
Net interest spread (1)		
Net interest income and interest margin (2)		$105,477

(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 six months end June 30, 2005	
	Average Balance	Interest Income/ Expense
Assets:		
Money market assets and funds sold	$686	$1
Investment securities:		
Available for sale		
Taxable	514,031	10,878
Tax-exempt	268,344	9,822
Held to maturity		
Taxable	735,800	14,553
Tax-exempt	577,735	18,207
Loans:		
Commercial		
Taxable	372,063	12,622
Tax-exempt	248,513	8,232
Commercial real estate	883,369	31,659
Real estate construction	62,995	2,256
Real estate residential	458,928	10,195
Consumer	496,818	12,720
Total loans	2,522,686	77,684
Total earning assets	4,619,282	131,145
Other assets	398,049	
Total assets	$5,017,331	
Liabilities and shareholders' equity:		
Deposits:		
Noninterest bearing demand	$1,351,234	$--

Savings and interest-bearing transaction	1,744,122	2,436
Time less than $100,000	289,290	2,780
Time $100,000 or more	427,068	4,595
Total interest-bearing deposits	2,460,480	9,811
Short-term borrowed funds	724,483	8,224
Debt financing and notes payable	33,629	1,067
Total interest-bearing liabilities	3,218,592	19,102
Other liabilities	45,293	
Shareholders' equity	402,212	
Total liabilities and shareholders' equity	$5,017,331	
Net interest spread (1)		
Net interest income and interest margin (2)		$112,043

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

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

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

	Three months ended June 3 compared with three mont ended June 30, 2005	
	Volume	Rate
Interest and fee income:		
Money market assets and funds sold	$0	$1
Investment securities:		
Available for sale		
Taxable	(495)	(38)
Tax-exempt	(249)	(19)
Held to maturity		
Taxable	(410)	553

Tax-exempt	(332)	(134)
Loans:		
Commercial:		
Taxable	(743)	1,208
Tax-exempt	(37)	(117)
Commercial real estate	(764)	449
Real estate construction	(58)	286
Real estate residential	176	133
Consumer	(133)	742
Total loans	(1,559)	2,701
Total earning assets	(3,045)	3,064
Interest expense:		
Deposits:		
Savings and interest-bearing transaction	(138)	179
Time less than $100,000	(363)	402
Time $100,000 or more	356	2,122
Total interest-bearing deposits	(145)	2,703
Short-term borrowed funds	138	2,902
Debt financing and notes payable	(53)	(6)
Total interest-bearing liabilities	(60)	5,599
Increase (decrease) in Net Interest Income	($2,985)	($2,535)

	Six months ended June 30, compared with six mont ended June 30, 2005	
	Volume	Rate
Interest and fee income:		
Money market assets and funds sold	$0	$1
Investment securities:		
Available for sale		
Taxable	(2,335)	88
Tax-exempt	(533)	(40)
Held to maturity		
Taxable	(451)	1,134
Tax-exempt	265	(290)
Loans:		
Commercial:		
Taxable	(523)	2,658
Tax-exempt	57	(216)
Commercial real estate	1,276	469
Real estate construction	586	519
Real estate residential	1,175	423

Consumer	(228)	1,093
Total loans	2,343	4,946
Total earning assets	(711)	5,839
Interest expense:		
Deposits:		
Savings and interest-bearing transaction	(165)	406
Time less than $100,000	(430)	691
Time $100,000 or more	927	4,014
Total interest-bearing deposits	332	5,111
Short-term borrowed funds	331	5,811
Debt financing and notes payable	124	(15)
Total interest-bearing liabilities	787	10,907
Increase (decrease) in Net Interest Income	($1,498)	($5,068)

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Provision for Credit Losses

The level of the provision for credit losses during each of the periods presented reflects the Company's continued efforts to manage credit costs by enforcing underwriting and administration procedures and aggressively pursuing collection efforts with troubled debtors. The Company provided $150 thousand for loan losses in the second quarter of 2006, compared with $300 thousand in the second quarter of 2005. For the first six months of 2006 and 2005, $300 thousand and $600 thousand were provided in each respective period. The provision reflects 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 credit losses, see the "Classified Assets" section of this report.

Noninterest Income

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

	Three months ended June 30,		Six months June 30
	2006	2005	2006
Service charges on deposit accounts	$7,186	$7,542	$14,269
Merchant credit card fees	2,392	2,417	4,778
ATM fees and interchange	717	709	1,395
Debit card fees	876	811	1,704
Other service fees	488	429	934
Financial services commissions	363	339	661

Trust fees	287	309	569
Official check issuance income	373	267	706
Mortgage banking income	49	67	99
Securities losses	0	0	0
Gain on sale of real estate	0	1,331	0
Other noninterest income	1,330	1,258	2,586
Total	$14,061	$15,479	$27,701

Noninterest income for the second quarter of 2006 decreased by $1.4 million or 9.2% from the same period in 2005 primarily because 2005 included a $1.3 million gain on sale of real estate. Service charges on deposits declined $356 thousand or 4.7% mainly due to decreases in deficit fees charged on analyzed accounts (down $207 thousand or 12.0%) resulting primarily from the higher earnings credit rate allocated to customers' compensating balances. Decreases in return item charges (down $108 thousand or 15.9%) and DDA activity also contributed to reducing service charges on deposits. Official check issuance income contributed to increasing noninterest income mostly due to the higher earnings credit rate received on outstanding items.

In the first half of 2006, noninterest income increased $5.0 million or 22.2% compared with the same period of the previous year primarily because 2005 included $4.9 million in losses on sales of securities, which were realized in managing the Company's interest rate risk position following the REBC acquisition. The previous year also included a $1.3 million gain on sale of real estate. Merchant credit card fees increased $1.1 million or 28.6% attributable to the acquisition of REBC's merchant card processing unit in March of 2005. Official check issuance income increased $214 thousand or 43.5% due to the higher earnings credit rate. Debit card fees increased $195 thousand or 12.9% mainly due to increased usage. Other service fees rose $100 thousand or 12.0% largely due to higher internet banking income. Service charges on deposits declined $200 thousand or 1.4% largely due to a decrease in deficit fees charged on analyzed accounts (down $224 thousand or 6.8%) as a result of the higher earnings credit rate, lower returned item charges and DDA activity, partially offset by an increase in overdraft fees (up $205 thousand or 3.1%).

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Noninterest Expense

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

	Three months ended June 30,		Six months June 30
	2006	2005	2006
Salaries and related benefits	$13,559	$13,956	$26,816
Occupancy	3,267	3,230	6,499
Data processing services	1,531	1,539	3,065
Equipment	1,315	1,313	2,581

Amortization of deposit intangibles	1,016	1,092	2,056
Courier service	909	964	1,831
Professional fees	833	604	1,291
Telephone	466	553	898
Postage	397	376	807
Stationery and supplies	272	304	542
Customer checks	263	240	553
Operational losses	255	200	443
Loan expense	236	232	430
Advertising/public relations	219	275	453
Correspondent Service Charges	207	264	390
Other noninterest expense	1,600	1,947	3,174
Total	$26,345	$27,089	$51,829
Average full time equivalent staff	904	974	922
Noninterest expense to revenues (FTE)	40.18%	37.36%	38.92%

Noninterest expense decreased $744 thousand or 2.7% in the second quarter of 2006 compared to the same period in 2005. Salaries and related benefits decreased $397 thousand or 2.8%, the net result of a $607 thousand decrease in salaries and a $210 thousand increase in incentive and other benefit plans. The decrease in regular salaries was attributable to the effect of a smaller workforce through attrition and payment made in 2005 to non-continuing REBC employees, partially offset by annual merit increases to continuing staff. Other noninterest expense declined $348 thousand or 17.9% mostly due to lower cost of corporate insurance, declines in travel expense and other operating expenses. Professional fees rose $229 thousand or 37.9% mostly due to a $277 thousand increase in legal fees.

In the first six months of 2006, noninterest expense declined $1.1 million or 2.1% compared with the corresponding period of 2005. Salaries and related benefits declined $1.0 million or 3.7% mostly due to a $820 thousand decrease in regular salary as a result of fewer employees, partially offset by annual merit increases, and a decline in the cost of benefit programs. Other noninterest expense decreased $594 thousand or 15.8% primarily due to a $353 thousand decrease in corporate insurance costs, and declines in travel expense and other operating expenses. The $183 thousand or 16.9% decline in telephone expense was largely attributable to savings from changing providers. Correspondent service charges and stationery and supplies expense decreased $124 thousand or 24.1% and $110 thousand or 16.9%, respectively. The $559 thousand or 37.3% increase in amortization of identifiable intangibles resulted from the REBC acquisition. Occupancy expense rose $318 thousand, or 5.1%, also due to the REBC acquisition.

Provision for Income Tax

During the second quarter of 2006, the Company recorded income tax expense (FTE) of $14.6 million, $2.8 million or 16.2% lower than the second quarter of 2005. The current quarter provision represents an effective tax rate of 37.3%, compared to 38.3% for the second quarter of 2005. On a year-to-date basis, the income tax provision (FTE) was $30.4 million for 2006 compared with $31.1 million for 2005. The effective tax rate of 37.6% for the first half of 2006 is lower than the 37.9% for the same period of 2005. The lower tax rates in 2006 are due to tax credits and other benefits realized from additional investments in low income housing projects, a higher proportion of tax-exempt income from municipal bonds and loans, tax refunds and other tax items.

Classified Assets

The Company closely monitors the markets in which it conducts its lending operations and continues its strategy to control exposure to loans with high credit risk and to increase diversification of 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 value less estimated disposition costs.

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

	At June 30, 2006	At June 30, 2005	At December 31, 2005
Classified loans	$25,682	$37,615	$29,997
Other real estate owned	656	40	0
Classified loans and other real estate owned	$26,338	$37,655	$29,997
Allowance for loan losses / classified loans	217%	159%	186%

Classified loans at June 30, 2006, decreased $11.9 million or 31.7% from a year ago mainly due to 14 loan payoffs totaling $22.1 million, a transfer to other real estate owned and upgrades, partially offset by nine loan downgrades totaling $9.1 million. Classified loans at June 30, 2006, declined $4.3 million or 14.4% from December 31, 2005 mostly due to seven loan payoffs totaling $16.3 million, a transfer to other real estate owned and upgrades, partially offset by eight loan downgrades totaling $7.9 million.

Other real estate owned increased $616 thousand from a year ago and rose $656 thousand from December 31, 2005 because collateral for one commercial real estate loan was foreclosed in the second quarter of 2006.

Nonperforming Loans and Other Real Estate Owned

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 other real estate owned on the dates indicated (dollars in thousands):

	At June 30, 2006	At June 30, 2005	At December 31, 2005
Performing nonaccrual loans	$3,899	$6,072	$4,256
Nonperforming nonaccrual loans	1,613	1,560	2,068
Total nonaccrual loans	5,512	7,632	6,324
Loans 90 days past due and still accruing	114	84	162
Total nonperforming loans	5,626	7,716	6,486
Other real estate owned	656	40	0
Total	$6,282	$7,756	$6,486
As a percentage of total loans	0.24%	0.29%	0.24%

Performing nonaccrual loans at June 30, 2006 decreased $2.2 million or 35.8% and $357 thousand or 8.4% from a year ago and December 31, 2005, respectively, as a result of loans being returned to accrual status, payoffs, loans being placed on nonperforming nonaccrual, chargeoffs and new loans being placed on nonaccrual.

Nonperforming nonaccrual loans at June 30, 2006 increased $53 thousand or 3.4% from a year ago and declined $455 thousand or 22.0% from December 31, 2005. The change was the net result of loans being returned to accrual status or being charged off or paid off, and others being added to nonperforming nonaccrual.

Changes in other real estate owned are discussed above under "Classified Assets".

The Company had no restructured loans as of June 30, 2006, June 30, 2005 and December 31, 2005.

The amount of gross interest income that would have been recorded for nonaccrual loans for the three and six month periods ended June 30, 2006, if all such loans had performed in accordance with their original terms, was $143 thousand and $262 thousand, respectively, compared to $150 thousand and $274 thousand, respectively, for the second quarter and the first half of 2005.

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The amount of interest income that was recognized on nonaccrual loans from all cash payments, including those related to interest owed from prior years, made during the three and six months ended June 30, 2006, totaled $93 thousand and $153 thousand, respectively, compared to $120 thousand and $285 thousand, respectively, for the comparable periods in 2005. These cash payments represent annualized yields of 5.78% and 5.01%, respectively, for the second quarter and the first six months of 2006 compared to 6.02% and 7.88%, respectively, for the second quarter and the first half of 2005.

Total cash payments received during the second quarter of 2006 which were applied against the book balance of nonaccrual loans outstanding at June 30, 2006, totaled approximately $15 thousand compared with $77 thousand for the same period in 2005. Cash payments received totaled $47 thousand for the six months ended June 30, 2006 compared with $228 thousand for the corresponding period in 2005.

Management believes the overall credit quality of the loan portfolio continues to be sound; however, nonperforming assets could fluctuate from period to period. The performance of any individual loan can be affected by external factors such as the interest rate environment, economic conditions or factors particular to the borrower. No assurance can be given that additional increases in nonperforming loans and other real estate owned 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 $59.4 million allowance for credit losses to be adequate as a reserve against losses as of June 30, 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	Six months

	June 30,		June 30
	2006	2005	2006
Balance, beginning of period	$59,456	$59,859	$59,536
Credit loss provision	150	300	300
Allowance acquired through merger	0	0	0
Loans charged off	(645)	(754)	(1,763)
Recoveries of previously charged off loans	411	457	1,299
Net credit losses	(234)	(297)	(464)
Balance, end of period	$59,372	$59,862	$59,372
Components:			
Allowance for loan losses	$55,684	$59,862	$55,684
Reserve for unfunded credit commitments (1)	3,688	--	3,688
Allowance for credit losses	$59,372	$59,862	$59,372
Allowance for loan losses / loans outstanding	2.16%	2.23%	

(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.

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Rising short-term interest rates are slowing growth of lower-costing deposit products, placing more reliance on higher-cost certificates of deposit and wholesale funding. Competitive loan pricing and loosened underwriting standards in the banking industry are limiting the opportunity to originate commercial loans which will remain profitable throughout the duration of the loans, in Management's opinion. Current interest rate spreads between loan origination yields and the rates paid on deposits and other funding sources are very narrow. Such interest rate spreads could be pressured in the near-term as funding costs rise while many loan yields are generally fixed in nature. As a result, the Company has not take an aggressive posture relative to current loan growth. The interest rate spread is also very narrow in regard to bond investments. As such, Westamerica has not been making additional investments in bonds. The Company's exposure to interest rate risk has declined during the first six months of 2006. Lower loan volumes, particularly commercial real estate, and a seasoning investment portfolio have reduced the duration of the Company's earning assets, while the duration of its funding has not changed by a meaningful amount. Management continues to monitor the interest rate environment as well as economic conditions and other conditions it deems relevant in managing the Company's exposure to interest rate risk.

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

Management assesses interest rate risk by comparing the Company's most likely earnings plan with various earnings models using many interest rate scenarios that differ in the direction of interest rate changes, the degree of change over time, the speed of change and the projected shape of the yield curve. For example, assuming an increase of 50 bp in the federal funds rate and an increase of 15 bp in the 10 year Constant Maturity Treasury Bond yield during the same period, estimated earnings at risk would be approximately 1.5% of the Company's most likely net income plan over the next twelve months. Simulation estimates depend on, and will change with, the size and mix of the actual and projected balance sheet at the time of each simulation.

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

Liquidity

The Company's principal source of asset liquidity is investment securities available for sale and principal payments from consumer loans. At June 30, 2006, investment securities available for sale totaled $620 million, representing a decrease of $42 million from December 31, 2005. At June 30, 2006, indirect auto loans totaled $409.5 million, which were experiencing stable monthly principal payments of approximately $20 million. In addition, at June 30, 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 $22.8 million was outstanding. Additionally, as a member of the Federal Reserve System, the Company has access to borrowing from the Federal Reserve. The Company's short-term debt rating from Fitch Ratings is F1. Management expects the Company can access short-term debt financing if desired. The Company's long-term debt rating from Fitch Ratings is A with a stable outlook. Management is confident the Company could access additional long-term debt financing if desired.

The Company generates significant liquidity from its operating activities. The Company's profitability during the first six months of 2006 and 2005 contributed to substantial operating cash flows of $56.3 million and $47.9 million, respectively. In the first half of 2006, operating activities and retained earnings from prior years provided cash for $47.8 million of Company stock repurchases, $20.3 million in shareholder dividends and $3.3 million for repayment of long term debt. Similarly, in 2005, operating activities and retained earnings from prior years provided cash for $19.3 million in shareholder dividends, $3.3 million for repayment of long term debt and $45.5 million utilized to repurchase common stock.

The Company's investing activities were also a net source of cash in the first six months of 2006. Proceeds from maturing investment securities of $128.7 million were only partially reinvested, for a net increase in cash of $123.7 million. Other investing activities included net loan repayments of $90.7 million. This cash inflow offset a $199 million decrease in customers' deposits and a $28.7 million reduction in short-term borrowings.

In the first six months of 2005, the Company's primary investment was the REBC acquisition. The Company paid cash of $35.2 million and issued 1.6 million shares of its common stock to REBC shareholders in exchange for $435 million loans, $47 million investment securities, $370 million deposits, a merchant card processing business, and other assets and liabilities. In the first six months of 2005, the Company also sold approximately $196 million in securities available for sale to manage its interest rate risk position in light of the REBC acquisition. The Company also divested approximately $34 million in deposits in a branch sale required by regulators in approving the REBC acquisition.

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

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

Capital Resources

The current and projected capital position of the Company and the impact of capital plans and long-term strategies are reviewed regularly by Management. The Company repurchases shares of its common stock in the open market pursuant to stock repurchase plans approved by the Board with the intention of lessening the dilutive impact of issuing new shares under stock option plans, returning excess capital to shareholders, and other ongoing requirements. These programs have been implemented to optimize the Company's use of equity capital and enhance shareholder value. Pursuant to these programs, the Company collectively repurchased 920 thousand shares and 863 thousand shares in the first half of 2006 and 2005, respectively.

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 $421.7 million at June 31, 2006, a decrease of $26.2 million or 5.9% from a year ago, and a decrease of $13.3 million or 3.1% from December 31, 2005. These decreases are reflective of the effect of the generation of earnings and stock issuance in connection with employee stock option exercises, offset by common stock repurchases, dividends paid to shareholders and a change in unrealized gain(loss) on securities available for sale. The Company's ratio of equity to total assets rose to 8.59% at June 30, 2006, from 8.47% a year ago and 8.44% on December 31, 2005, because total assets decreased relatively more than shareholders' equity.

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

	At June 30,		At December 31,	Minimum Regulatory
	2006	2005	2005	Requirement
Tier I Capital	9.61%	9.04%	9.08%	4.00%
Total Capital	10.93%	10.37%	10.40%	8.00%
Leverage ratio	6.26%	5.96%	6.01%	4.00%

The risk-based capital ratios rose at June 30, 2006, compared with June 30 and December 31 of 2005, primarily due to lower risk-adjusted 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 June 30, 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 June 30, 2006 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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.

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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 June 30, 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
April 1 through				

April 30	143	$51.12	143	909
May 1 through May 31	252	50.83	252	657
June 1 through June 30	96	48.57	96	561
Total	491	$50.48	491	561

* Includes 14, 7 and 6 shares purchased in April, May and June, 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 second 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. At June 30, 2006, 561,000 shares remain available to purchase under this authorization.

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Item 3. Defaults upon Senior Securities

None

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

Proxies for the Annual Meeting of shareholders held on April 27, 2006, were solicited pursuant Regulation 14A of the Securities Exchange Act of 1934. The Report of Inspector of election indicates that 27,094,988 shares of the Common Stock of the Company, out of 31,648,838 shares outstanding on February 27, 2006 the record date, were present, in person or by proxy, at the meeting. There were no "broker non-votes" because the election of directors is considered "routine" under applicable exchange rules and therefore, on this matter, brokers were able to vote shares for which no direction was provided by the beneficial owner. The following matter was submitted to a vote of the shareholders:

1. - Election of directors:

	For	Withheld
Etta Allen	26,561,230	533,759
Louis E. Bartolini	26,375,284	719,705
E.Joseph Bowler	26,858,668	236,320

Arthur C. Latno, Jr.	26,258,382	836,606
Patrick D. Lynch	26,484,883	610,106
Catherine C. MacMillan	26,536,941	558,047
Ronald A. Nelson	26,260,194	834,794
Carl R. Otto	26,519,980	575,008
David L. Payne	26,651,749	443,239
Edward B. Sylvester	26,600,097	494,891

Shareholders were to cast their vote for or to withhold their vote.

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

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

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SIGNATURES

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

WESTAMERICA BANCORPORATION
(Registrant)

August 4, 2006 — Date

/s/ John "Robert" Thorson

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