WESTAMERICA BANCORPORATION
Form 10-Q
May 07, 2008
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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 March 31, 2008

OR

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

For the transition period from __________ to __________

Commission file number: 001-9383

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

CALIFORNIA	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 [x]

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

Large Accelerated Filer [x] Accelerated Filer [ ]
Non-Accelerated Filer [ ]

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

Yes [ ]   No [x]

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

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

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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, 2007, for further discussion of factors which could affect the Company's business and cause actual results to differ materially from those expressed in any forward-looking statement made in this report. The Company undertakes no obligation to update any forward-looking statements in this report.

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Part I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

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

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

See accompanying notes to unaudited condensed consolidated financial statements.

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

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

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

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Shares	Common Stock	Deferred Compensation	Accumulated Compre- hensive Income (Loss)	R E
Balance, December 31, 2006	30,547	$341,529	$2,734	$1,850	
Comprehensive income					
Net income for the period					
Other comprehensive income, net of tax:					
Net unrealized gain on securities available for sale				1,734	
Post-retirement benefit transition obligation amortization				9	
Total comprehensive income					
Exercise of stock options	58	2,122			
Stock option tax benefits		134			
Stock based compensation		474			
Stock awarded to employees	--	19			
Purchase and retirement of stock	(447)	(5,288)			
Dividends					
Balance, March 31, 2007	30,158	$338,990	$2,734	$3,593	
Balance, December 31, 2007	29,018	$334,211	$2,990	($4,520)	
Comprehensive income					
Net income for the period					
Other comprehensive income, net of tax:					
Net unrealized gain on securities available for sale				557	
Post-retirement benefit transition					

obligation amortization				9
Total comprehensive income				
Exercise of stock options	176	6,528		
Stock option tax benefits		224		
Restricted stock activity		67	(67)	
Stock based compensation		336		
Stock awarded to employees	2	127		
Purchase and retirement of stock	(424)	(4,948)		
Dividends				
Balance, March 31, 2008	28,772	$336,545	$2,923	($3,954)

See accompanying notes to unaudited condensed consolidated financial statements.

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

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

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

See accompanying notes to unaudited condensed consolidated financial statements.
* Federal Reserve Bank/Federal Home Loan Bank ("FRB/FHLB")

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. The results of operations reflect interim adjustments, all of which are of a normal recurring nature and which, in the opinion of Management, are necessary for a fair presentation of the results for the interim periods presented. The interim results for the three months ended March 31, 2008 and 2007 are not necessarily indicative of the results expected for the full year. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes as well as other information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

Note 2: Significant Accounting Policies.

Certain accounting policies underlying the preparation of these financial statements require Management to make estimates and judgments. These estimates and judgments may affect reported amounts of assets and liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. The most significant of these involve the Allowance for Credit Losses, which is discussed in Note 1 to the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

On January 1, 2008, the Company adopted the following new accounting pronouncements:
- FASB Statement No. 157 ("FAS 157") - Fair Value Measurements
- FASB Statement No. 159 ("FAS 159") - The Fair Value Option for Financial Assets and Financial Liabilities -- Including an Amendment of FASB Statement No. 115

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

Recently Issued Accounting Pronouncements

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

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

Note 3: Fair Values of Assets and Liabilities.

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

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

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

Fair Value Hierarchy

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

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

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

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

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

At March 31, 2008			
Total	Level 1	Level 2	Level 3

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

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

Note 4: Investments

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

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

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

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

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

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Note 5: Loans

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

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

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

Note 6: Goodwill and Other Identifiable Intangible Assets

The Company has recorded goodwill and other identifiable intangibles associated with purchase business combinations. Goodwill is not amortized, but is periodically evaluated for impairment. The Company did not recognize impairment during the three months ended March 31, 2008 and March 31, 2007. Identifiable intangibles are amortized to their estimated residual values over their expected useful lives. Such lives and residual values are also periodically reassessed to determine if any amortization period adjustments are indicated. During the three months ended March 31, 2008 and March 31, 2007, no such adjustments were recorded.

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

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

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

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

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

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

Note 7: Stock Options

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

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

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

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

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

A summary of stock option activity is presented below:

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

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

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

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

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

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

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

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

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

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

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

Note 8: Post Retirement Benefits

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

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

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

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

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Note 9: Contingent Liabilities

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

Note 10: Earnings Per Common Share

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

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

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

For the three months ended March 31, 2008 and 2007, options to purchase 1.3 million and 922 thousand shares of common stock, respectively, were outstanding but not included in the computation of diluted net income per share because the option exercise price exceeded the fair value of the stock such that their inclusion would have had an anti-dilutive effect.

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

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

Diluted Earnings Per Share	0.92	0.76	0.74
Return On Assets	2.43%	2.03%	1.90%
Return On Equity	27.32%	23.04%	21.72%
Net Interest Margin (FTE)**	4.79%	4.41%	4.53%
Net Loan Losses to Average Loans	0.14%	0.08%	0.14%
Efficiency Ratio*	34.2%	39.7%	44.3%
Average Balances:			
Total Assets	$4,433,934	$4,713,173	$4,556,715
Earning Assets	4,028,221	4,287,431	4,124,196
Total Gross Loans	2,477,666	2,519,861	2,496,403
Total Deposits	3,212,347	3,427,010	3,325,154
Shareholders' Equity	394,273	414,957	398,703
Balances at Period End:			
Total Assets	$4,342,302	$4,748,829	$4,558,959
Earning Assets	3,942,955	4,264,821	4,081,418
Total Gross Loans	2,448,320	2,519,898	2,502,976
Total Deposits	3,194,638	3,444,372	3,264,790
Shareholders' Equity	399,109	419,810	394,603
Financial Ratios at Period End:			
Allowance for Loan Losses to Loans	2.13%	2.18%	2.10%
Book Value Per Share	$13.87	$13.92	$13.60
Equity to Assets	9.19%	8.84%	8.66%
Total Capital to Risk Adjusted Assets	11.04%	10.96%	10.64%
Dividends Paid Per Share	$0.34	$0.34	$0.34
Dividend Payout Ratio	37%	44%	46%

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

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

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

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

Westamerica Bancorporation and subsidiaries (the "Company") reported first quarter 2008 net income of $26.8 million or $0.92 diluted earnings per share. These results compare to net income of $23.6 million or $0.76 diluted earnings per share and $21.8 million or $0.74 diluted earnings per share, respectively, for the first and fourth quarters of 2007. The first quarter of 2008 included benefits from Visa's initial public offering which increased net income by $4.7 million and earnings per diluted share by $0.16. The first quarter of 2007 included $822 thousand in tax-exempt company owned life insurance proceeds, representing $0.02 earnings per diluted share. The fourth quarter of 2007 included litigation expense of $2.3 million related to Westamerica's proportionate share of Visa's litigation exposure and a $700 thousand income tax refund which combined to reduce net income by $590 thousand or earnings per diluted share by $0.02.

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

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

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

Comparing the first quarter of 2008 to the prior quarter, net income increased $4.9 million or 22.7%, due to higher net interest income (FTE), higher noninterest income and lower noninterest expense, partially offset by increases in the provision for loan losses and income tax provision (FTE). The higher net interest income (FTE) was mainly caused by lower funding costs, partially offset by a lower volume of average earning assets and lower yields on loans. The provision for loan losses increased $125 thousand to reflect Management's assessment on credit risk and the level of the allowance for loan losses. Noninterest income increased $4.7 million or 32.2% largely due to gains on sale of Visa common stock. Noninterest expense declined $4.2 million or 15.3% primarily due to a reversal of the $2.3 million Visa related litigation accrual. The income tax provision (FTE) increased $5.0 million or 41.6% primarily due to higher profitability and because the provision for the prior quarter was reduced due to a $700 thousand income tax refund.

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Net Interest Income

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

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

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

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

Interest and Fee Income

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

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

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

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

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

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

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Interest Expense

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

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

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

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

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

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

In all periods, the Company has focused its sales efforts on building the balances of more profitable, noninterest bearing and lower-cost transaction accounts in order to minimize the cost of funds.

Net Interest Margin (FTE)

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

	Three months ended		
	March 31,		December 31,
	2008	2007	2007
Yield on earning assets (FTE)	6.06%	6.11%	6.11%
Rate paid on interest-bearing liabilities	1.85%	2.46%	2.30%
Net interest spread (FTE)	4.21%	3.65%	3.81%
Impact of all other net			

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

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

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

Summary of Average Balances, Yields/Rates and Interest Differential

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

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

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

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

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

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

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

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	For the three months e December 31, 2007	
	Average Balance	Interest income/ expense
Assets:		
Money market assets and funds sold	$817	$3
Investment securities:		
Available for sale		
Taxable	387,536	3,747
Tax-exempt (1)	225,315	4,077
Held to maturity		
Taxable	449,426	5,395
Tax-exempt (1)	564,699	8,684
Loans:		
Commercial:		
Taxable	301,374	6,297
Tax-exempt (1)	218,522	3,531
Commercial real estate	864,464	15,492
Real estate construction	95,197	2,158
Real estate residential	485,290	5,793
Consumer	531,556	8,118
Total loans (1)	2,496,403	41,389
Total earning assets (1)	4,124,196	63,295
Other assets	432,519	
Total assets	$4,556,715	
Liabilities and shareholders' equity		
Deposits:		
Noninterest bearing demand	$1,258,496	$--
Savings and interest-bearing transaction	1,351,806	2,151
Time less than $100,000	202,242	1,716
Time $100,000 or more	512,610	5,259
Total interest-bearing deposits	2,066,658	9,126
Short-term borrowed funds	726,783	6,779
Debt financing and notes payable	36,794	578
Total interest-bearing liabilities	2,830,235	16,483
Other liabilities	69,281	
Shareholders' equity	398,703	
Total liabilities and shareholders' equity	$4,556,715	
Net interest spread (1) (2)		
Net interest income and interest margin (1) (3)		$46,812

(1) Interest and rates calculated on a fully taxable equivalent basis using the current statutory federal tax rate.
(2) Net interest spread represents the average yield earned on earning assets minus the average rate paid on interest-bearing liabilities.

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

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

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

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

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

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

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

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

Provision for Loan Losses

The level of the provision for loan losses during each of the periods presented reflects the Company's continued efforts to manage credit costs by enforcing underwriting and administration procedures and aggressively pursuing collection efforts with troubled debtors. The company provided $600 thousand, $75 thousand and $475 thousand for loan losses in the first quarter of 2008, the first quarter and the fourth quarter of 2007, respectively. The provision reflects the Company's loss experience and Management's assessment of credit risk in the loan portfolio for each of the periods presented. For further information regarding net credit losses and the allowance for loan losses, see the "Allowance for Credit Losses" section of this report.

Noninterest Income

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

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

Noninterest income for the first quarter of 2008 rose by $4.1 million or 26.8% from the same period in 2007. The increase was mostly attributable to $5.7 million in securities gains on sale of Visa common stock. Visa's initial public offering ("IPO") occurred on March 19, 2008. As a part of the IPO, Visa redeemed class B common stock held by Visa member banks in an amount which reduced Visa member banks' ownership in Visa to less than 50 percent. As a result, a portion of the shares of Visa class B common stock held by the Company were redeemed, resulting in a gain of $5.7 million. A $131 thousand or 5.3% increase in merchant credit card fees also contributed to higher noninterest income. Proceeds of $822 thousand from Company owned life insurance recognized in the first quarter of 2007 partially offset the increase. Additionally, service charges on deposit accounts decreased $232 thousand or 3.1% mainly due to declines in charges for overdrafts, returned items and checking and savings account services. Official check issuance income fell $221 thousand or 71.1% mainly due to the lower incentive rate from the vendor, who is in the process of terminating this line of business. The Company will issue its own official checks in the future and realize the economic benefit as part of its net interest income. Other noninterest income declined $384 thousand or 27.1% largely due to lower interest recoveries on charged off loans.

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

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

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

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

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

Provision for Income Tax

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

Classified Assets

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

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

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

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

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

Nonperforming Loans

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

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

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

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

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

	At March 31,		Dec
	2008	2007	
Residential real estate loans:			
30-89 days delinquent:			
Dollar amount	$28	$1,863	
Percentage of total residential real estate loans	0.01%	0.37%	
90 or more days delinquent:			
Dollar amount	$-0-	$-0-	
Percentage of total residential real estate loans	0.00%	0.00%	
Automobile loans:			
30-89 days delinquent:			
Dollar amount	$2,523	$1,771	
Percentage of total automobile loans	0.54%	0.40%	
90 or more days delinquent:			
Dollar amount	$185	$60	
Percentage of total automobile loans	0.04%	0.01%	

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

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

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

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

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

Allowance for Credit Losses

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

	Three months ended		
	March 31,		December 31,
	2008	2007	2007
Balance, beginning of period	$55,799	$59,023	$56,631
Provision for loan losses	600	75	475
Provision for unfunded credit commitments	0	0	(400)
Loans charged off	(1,537)	(1,244)	(1,162)
Recoveries of previously charged off loans	665	728	255

free rent and tenant improvements.
Additionally, the Company carries comprehensive liability, fire, extended coverage and rental loss insurance on all of its properties. Five of the Company's properties are located in New York City. As a result of the events of September 11, 2001, insurance companies are limiting and/or excluding coverage for acts of terrorism in all risk policies. The Company's current insurance coverage provides for full replacement cost of its properties, except that the coverage for acts of terrorism on its properties covers losses in an amount up to $100 million per occurrence (except for one property which has an additional aggregate $150 million of coverage). As a result, the Company may suffer losses from acts of terrorism that are not covered by insurance. In addition, the mortgage loans which are secured by certain of the Company's properties contain customary covenants, including covenants that require the Company to maintain property insurance in an amount equal to replacement cost of the properties. There can be no assurance that the lenders under these mortgage loans will not take the position that exclusions from the Company's coverage for losses due to terrorist acts is a breach of a covenant which, if uncured, could allow the lenders to declare an event of default and accelerate repayment of the mortgage loans. Other outstanding debt instruments contain standard cross default provisions that would be triggered in the event of an acceleration of the mortgage loans. This matter could adversely affect the Company's financial results, its ability to finance and/or refinance its properties or to buy or sell properties.

In order to qualify as a REIT for federal income tax purposes, the Company is required to make distributions to its stockholders of at least 90% of REIT taxable income. The Company expects to use its cash flow from operating activities for distributions to stockholders and for payment of recurring, non-incremental revenue-generating expenditures. The Company intends to invest amounts accumulated for distribution in short-term investments.

INFLATION

The office leases generally provide for fixed base rent increases or indexed escalations. In addition, the office leases provide for separate escalations of real estate taxes, operating expenses and electric costs over a base amount. The industrial leases generally provide for fixed base rent increases, direct pass through of certain operating expenses and separate real estate tax escalations over a base amount. The Company believes that inflationary increases in expenses will be offset by contractual rent increases and expense escalations described above. To the extent the Company's properties contain vacant space, the Company will bear such inflationary increases in expenses.

The Credit Facility bears interest at a variable rate, which will be influenced by changes in short-term interest rates, and is sensitive to inflation.

FUNDS FROM OPERATIONS

Management believes that funds from operations ("FFO") is an appropriate measure of performance of an equity REIT. FFO is defined by the National Association of Real Estate Investment Trusts ("NAREIT") as net income or loss, excluding gains or losses from debt restructuring and sales of properties plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. FFO does not represent cash generated from operating activities in accordance with accounting principles generally accepted in the United States and is not indicative of cash available to fund cash needs. FFO should not be considered as an alternative to net income, as an indicator of the Company's operating performance or as an alternative to cash flow as a measure of liquidity.

Since all companies and analysts do not calculate FFO in a similar fashion, the Company's calculation of FFO presented herein may not be comparable to similarly titled measures as reported by other companies.

The following table presents the Company's FFO calculation (unaudited and in thousands, except per share/unit data):

	THREE MONTHS ENDED JUNE 30,	
	2002	2001
Net income available to common shareholders	$ 13,805	$ 19,759
Adjustments for basic funds from operations:		
Add:		
Limited partners' minority interest in the operating partnership	1,663	2,616
Real estate depreciation and amortization	27,041	26,727
Minority partners' interests in consolidated partnerships	4,813	4,065
Less:		
Gain on sales of real estate partnerships	--	--
Amounts distributable to minority partners in consolidated partnerships	6,329	5,104

Basic Funds From Operations ("FFO")	40,993	48,063
Add:		
Dividends and distributions on dilutive shares and units	5,767	6,958
Diluted FFO	$ 46,760	$ 55,021
Weighted average common shares outstanding	61,059	57,505
Weighted average units of limited partnership interest outstanding	7,500	7,763
Basic weighted average common shares and units outstanding	68,559	65,268
Adjustments for dilutive FFO weighted average shares and units outstanding:		
Add:		
Weighted average common stock equivalents	390	378
Weighted average shares of Series A Preferred Stock	8,060	8,060
Weighted average shares of Series B Preferred Stock	1,919	1,919
Weighted average shares of minority partners preferred interest	--	2,277
Weighted average shares of preferred limited partnership interest	661	1,127
Dilutive FFO weighted average shares and units outstanding	79,589	79,029

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The primary market risk facing the Company is interest rate risk on its long term debt, mortgage notes and notes receivable. The Company will, when advantageous, hedge its interest rate risk using financial instruments. The Company is not subject to foreign currency risk.

The Company manages its exposure to interest rate risk on its variable rate indebtedness by borrowing on a short-term basis under its Credit Facility until such time as it is able to retire the short-term variable rate debt with either a long-term fixed rate debt offering, long term mortgage debt, equity offerings or through sales or partial sales of assets.

The Company will recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges will be adjusted to fair value through income. If a derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in fair value of the hedged asset, liability, or firm commitment through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. As of June 30, 2002, the Company had no derivatives outstanding.

The fair market value ("FMV") of the Company's long term debt, mortgage notes and notes receivable is estimated based on discounting future cash flows at interest rates that management believes reflect the risks associated with long term debt, mortgage notes and notes receivable of similar risk and duration.

The following table sets forth the Company's long term debt obligations by scheduled principal cash flow payments and maturity date, weighted average interest rates and estimated FMV at June 30, 2002 (dollars in thousands):

	FOR THE YEAR ENDED DECEMBER 31,				
	2002	2003	2004	2005	
Long term debt:					
Fixed rate	$ 5,965	$ 12,300	$ 115,785	$ 32,720	$
Weighted average interest rate	7.49%	7.51%	7.47%	6.92%	
Variable rate	$ --	$ 176,000	$ --	$ --	$
Weighted average interest rate	--	2.97%	--	--	

	THEREAFTER	TOTAL(1)	FMV
Long term debt:			
Fixed rate	$ 935,508	$ 1,245,983	$ 1,265,746
Weighted average interest rate	7.27%	7.30%	
Variable rate	$ --	$ 176,000	$ 176,000
Weighted average interest rate	--	2.97%	

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(1) Includes aggregate unamortized issuance discounts of approximately $761 on the senior unsecured notes issued during March 1999 and June 2002, which are due at maturity.

In addition, a one percent increase in the LIBOR rate would have an approximate $1.8 million annual increase in interest expense based on $176 million of variable rate debt outstanding at June 30, 2002.

The following table sets forth the Company's mortgage notes and note receivables by scheduled maturity date, weighted average interest rates and estimated FMV at June 30, 2002 (dollars in thousands):

	FOR THE YEAR ENDED DECEMBER 31,					
	2002	2003	2004	2005	2006	THEREAFTER
Mortgage notes and notes receivable:						
Fixed rate	$ 1,157	$ --	$ 36,500	$ --	$ --	$ 16,990
Weighted average interest rate	9.0%	--	10.23%	--	--	11.92%

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(1) Excludes interest receivables aggregating approximately $721.

NON-INCREMENTAL REVENUE GENERATING CAPITAL EXPENDITURES,
TENANT IMPROVEMENT COSTS AND LEASING COMMISSIONS

The following table summarizes the expenditures incurred for capital expenditures for the entire portfolio and tenant improvements and leasing commissions for space leased at the Company's office and industrial properties for the years 1998 through 2001 and the six months ended June 30, 2002.

NON-INCREMENTAL REVENUE GENERATING CAPITAL EXPENDITURES

	1998	1999	2000	2001	AV 199
SUBURBAN OFFICE PROPERTIES					
Total	$ 2,004,976	$ 2,298,899	$ 3,289,116	$ 4,606,069	$ 3,
Per Square Foot	0.23	0.23	0.33	0.45	
NYC OFFICE PROPERTIES					
Total	N/A	N/A	$ 946,718	$ 1,584,501	$ 1,
Per Square Foot	N/A	N/A	0.38	0.45	
INDUSTRIAL PROPERTIES					
Total	$ 1,205,266	$ 1,048,688	$ 813,431	$ 711,666	$
Per Square Foot	0.12	0.11	0.11	0.11	

NON-INCREMENTAL REVENUE GENERATING TENANT IMPROVEMENTS AND LEASING COMMISSIONS

	1998	1999	2000
LONG ISLAND OFFICE PROPERTIES			
Tenant Improvements	$1,140,251	$1,009,357	$2,853,706
Per Square Foot Improved	3.98	4.73	6.99
Leasing Commissions	$ 418,191	$ 551,762	$2,208,604
Per Square Foot Leased	1.46	2.59	4.96
Total Per Square Foot	$ 5.44	$ 7.32	$ 11.95
WESTCHESTER OFFICE PROPERTIES			
Tenant Improvements	$ 711,160	$1,316,611	$1,860,027
Per Square Foot Improved	4.45	5.62	5.72
Leasing Commissions	$ 286,150	$ 457,730	$ 412,226
Per Square Foot Leased	1.79	1.96	3.00
Total Per Square Foot	$ 6.24	$ 7.58	$ 8.72
CONNECTICUT OFFICE PROPERTIES			
Tenant Improvements	$ 202,880	$ 179,043	$ 385,531
Per Square Foot Improved	5.92	4.88	4.19
Leasing Commissions	$ 151,063	$ 110,252	$ 453,435
Per Square Foot Leased	4.41	3.00	4.92
Total Per Square Foot	$ 10.33	$ 7.88	$ 9.11
NEW JERSEY OFFICE PROPERTIES			
Tenant Improvements	$ 654,877	$ 454,054	$1,580,323
Per Square Foot Improved	3.78	2.29	6.71
Leasing Commissions	$ 396,127	$ 787,065	$1,031,950
Per Square Foot Leased	2.08	3.96	4.44
Total Per Square Foot	$ 5.86	$ 6.25	$ 11.15

NEW YORK CITY OFFICE PROPERTIES			
Tenant Improvements	N/A	N/A	$ 65,267
Per Square Foot Improved	N/A	N/A	1.79
Leasing Commissions	N/A	N/A	$ 418,185
Per Square Foot Leased	N/A	N/A	11.50
Total Per Square Foot	N/A	N/A	$ 13.29
INDUSTRIAL PROPERTIES			
Tenant Improvements	$ 283,842	$ 375,646	$ 650,216
Per Square Foot Improved	0.76	0.25	0.95
Leasing Commissions	$ 200,154	$ 835,108	$ 436,506
Per Square Foot Leased	0.44	0.56	0.64
Total Per Square Foot	$ 1.20	$ 0.81	$ 1.59

	2001	AVERAGE 1998-2001	2002	NEW
LONG ISLAND OFFICE PROPERTIES				
Tenant Improvements	$2,722,457	$1,931,443	$ 817,925	$ 470,774
Per Square Foot Improved	8.47	6.04	5.33	10.51
Leasing Commissions	$1,444,412	$1,155,742	$ 661,559	$ 253,957
Per Square Foot Leased	4.49	3.38	4.31	5.67
Total Per Square Foot	$ 12.96	$ 9.42	9.63	$ 16.18
WESTCHESTER OFFICE PROPERTIES				
Tenant Improvements	$2,584,728	$1,618,132	$1,200,380	$ 967,886
Per Square Foot Improved	5.91	5.43	7.59	11.53
Leasing Commissions	$1,263,012	$ 604,780	$ 513,884	$ 357,295
Per Square Foot Leased	2.89	2.41	3.25	4.26
Total Per Square Foot	$ 8.80	$ 7.84	$ 10.84	$ 15.79
CONNECTICUT OFFICE PROPERTIES				
Tenant Improvements	$ 213,909	$ 245,341	$ 385,999	$ 384,279
Per Square Foot Improved	1.46	4.11	8.86	9.34
Leasing Commissions	$ 209,322	$ 231,018	$ 101,574	$ 101,574
Per Square Foot Leased	1.43	3.44	2.33	2.47
Total Per Square Foot	$ 2.89	$ 7.55	$ 11.19	$ 11.81
NEW JERSEY OFFICE PROPERTIES				
Tenant Improvements	$1,146,385	$ 958,910	$ 624,731	$ 336,076
Per Square Foot Improved	2.92	3.93	10.22	19.80
Leasing Commissions	$1,602,962	$ 954,526	$ 330,520	$ 127,681
Per Square Foot Leased	4.08	3.64	5.13	6.30
Total Per Square Foot	$ 7.00	$ 7.57	$ 15.35	$ 26.10
NEW YORK CITY OFFICE PROPERTIES				
Tenant Improvements	$ 788,930	$ 427,099	$2,074,924	$1,348,436
Per Square Foot Improved	15.69	8.74	20.23	20.47

Leasing Commissions	$1,098,829	$ 758,507	$ 816,045	$ 389,781
Per Square Foot Leased	21.86	16.68	7.96	5.92
Total Per Square Foot	$ 37.55	$ 25.42	$ 28.19	26.39
INDUSTRIAL PROPERTIES				
Tenant Improvements	$1,366,488	$ 669,048	$ 743,640	$ 672,728
Per Square Foot Improved	1.65	0.90	1.56	3.71
Leasing Commissions	$ 354,572	$ 456,585	$ 330,391	$ 289,591
Per Square Foot Leased	0.43	0.52	0.69	1.60
Total Per Square Foot	$ 2.08	$ 1.42	$ 2.25	5.32

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LEASE EXPIRATION SCHEDULE

The following table sets forth scheduled lease expirations for executed leases as of June 30, 2002:

LONG ISLAND OFFICE (EXCLUDING OMNI)

YEAR OF EXPIRATION	NUMBER OF LEASES EXPIRING	SQUARE FEET EXPIRING	% OF TOTAL LEASED SQ FT	CUMULATIVE % OF TOTAL LEASED SQ FT	EXPI GA RENT
2002	17	66,399	2.1%	2.1%	$ 23
2003	50	319,071	10.0%	12.1%	$ 24
2004	49	301,455	9.5%	21.6%	$ 21
2005	71	396,191	12.5%	34.0%	$ 24
2006	44	169,206	5.3%	39.4%	$ 25
2007	36	423,707	13.3%	52.7%	$ 24
2008 AND THEREAFTER	81	1,505,191	47.3%	100.0%	
TOTAL/WEIGHTED AVERAGE	348	3,181,220	100.0%	--	

OMNI

YEAR OF EXPIRATION	NUMBER OF LEASES EXPIRING	SQUARE FEET EXPIRING	% OF TOTAL LEASED SQ FT	CUMULATIVE % OF TOTAL LEASED SQ FT	EXPIRI GAAP RENT (
2002	2	34,975	6.3%	6.3%	$ 28.0
2003	3	49,793	9.0%	15.4%	$ 29.5
2004	5	113,793	20.6%	36.0%	$ 27.2
2005	4	43,780	7.9%	43.9%	$ 28.2
2006	0	--	0.0%	43.9%	-
2007	2	59,722	10.8%	54.7%	$ 26.7
2008 AND THEREAFTER	12	250,112	45.3%	100.0%	-

TOTAL/WEIGHTED AVERAGE	28	552,175	100.0%	--	-

WESTCHESTER OFFICE

YEAR OF EXPIRATION	NUMBER OF LEASES EXPIRING	SQUARE FEET EXPIRING	% OF TOTAL LEASED SQ FT	CUMULATIVE % OF TOTAL LEASED SQ FT	EXPI GA RENT
2002	24	172,220	5.7%	5.7%	$ 21
2003	46	242,271	8.0%	13.7%	$ 22
2004	38	177,296	5.9%	19.6%	$ 21
2005	51	465,316	15.4%	35.0%	$ 22
2006	40	720,326	23.8%	58.8%	$ 22
2007	33	425,732	14.1%	72.9%	$ 25
2008 AND THEREAFTER	35	819,145	27.1%	100.0%	
TOTAL/WEIGHTED AVERAGE	267	3,022,306	100.0%	--	

LEASE EXPIRATION SCHEDULE - (CONTINUED)

STAMFORD OFFICE

YEAR OF EXPIRATION	NUMBER OF LEASES EXPIRING	SQUARE FEET EXPIRING	% OF TOTAL LEASED SQ FT	CUMULATIVE % OF TOTAL LEASED SQ FT	EXPI GA RENT
2002	13	32,118	3.0%	3.0%	$ 24
2003	20	145,085	13.6%	16.6%	$ 30
2004	28	236,570	22.2%	38.9%	$ 22
2005	24	123,864	11.6%	50.5%	$ 26
2006	24	291,313	27.4%	77.9%	$ 24
2007	10	94,890	8.9%	86.8%	$ 32
2008 AND THEREAFTER	9	140,729	13.2%	100.0%	
TOTAL/WEIGHTED AVERAGE	128	1,064,569	100.0%	--	

NEW JERSEY OFFICE

YEAR OF EXPIRATION	NUMBER OF LEASES EXPIRING	SQUARE FEET EXPIRING	% OF TOTAL LEASED SQ FT	CUMULATIVE % OF TOTAL LEASED SQ FT	EXPI GA RENT
2002	8	81,618	4.4%	4.4%	$ 21
2003	20	319,328	17.2%	21.5%	$ 27

2004	28	206,608	11.1%	32.6%	$ 23
2005	27	272,784	14.7%	47.3%	$ 23
2006	16	181,060	9.7%	57.0%	$ 24
2007	5	57,237	3.1%	60.1%	$ 21
2008 AND THEREAFTER	20	743,082	39.9%	100.0%	
TOTAL/WEIGHTED AVERAGE	124	1,861,717	100.0%	--	

NEW YORK CITY OFFICE

YEAR OF EXPIRATION	NUMBER OF LEASES EXPIRING	SQUARE FEET EXPIRING	% OF TOTAL LEASED SQ FT	CUMULATIVE % OF TOTAL LEASED SQ FT	EXPI GA RENT
2002	10	122,367	3.6%	3.6%	$ 43
2003	7	114,987	3.4%	6.9%	$ 32
2004	20	223,677	6.5%	13.5%	$ 36
2005	34	451,470	13.2%	26.7%	$ 36
2006	54	346,402	10.1%	36.8%	$ 30
2007	12	126,083	3.7%	40.5%	$ 34
2008 AND THEREAFTER	88	2,034,773	59.5%	100.0%	
TOTAL/WEIGHTED AVERAGE	225	3,419,759	100.0%	--	

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LEASE EXPIRATION SCHEDULE - (CONTINUED)

INDUSTRIAL

YEAR OF EXPIRATION	NUMBER OF LEASES EXPIRING	SQUARE FEET EXPIRING	% OF TOTAL LEASED SQ FT	CUMULATIVE % OF TOTAL LEASED SQ FT	EXPI GA RENT
2002	8	91,878	1.8%	1.8%	$ 7
2003	19	499,273	9.8%	11.6%	$ 5
2004	35	562,235	11.0%	22.6%	$ 6
2005	26	476,541	9.4%	32.0%	$ 5
2006	39	865,820	17.0%	49.0%	$ 6
2007	22	229,316	4.5%	53.5%	$ 7
2008 AND THEREAFTER	50	2,371,109	46.5%	100.0%	
TOTAL/WEIGHTED AVERAGE	199	5,096,172	100.0%	--	

RESEARCH & DEVELOPMENT

	NUMBER OF	SQUARE	% OF TOTAL	CUMULATIVE	EXPI

YEAR OF EXPIRATION	LEASES EXPIRING	FEET EXPIRING	LEASED SQ FT	% OF TOTAL LEASED SQ FT	GA RENT
2002	1	4,620	0.4%	0.4%	$ 12
2003	4	91,938	8.2%	8.6%	$ 10
2004	9	99,218	8.9%	17.5%	$ 13
2005	11	457,440	40.9%	58.3%	$ 9
2006	7	83,061	7.4%	65.8%	$ 17
2007	4	85,444	7.6%	73.4%	$ 12
2008 AND THEREAFTER	15	298,015	26.6%	100.0%	
TOTAL/WEIGHTED AVERAGE	51	1,119,736	100.0%	--	

The following table sets forth the Company's schedule of its top 25 tenants based on base rental revenue as of June 30, 2002:

	Tenant Name (1)	Tenant Type	Total Square Feet	Percent o Annua Renta
*	Debevoise & Plimpton	Office	465,420	
*	WorldCom/MCI	Office	547,018	
*	American Express	Office	238,261	
	Bell Atlantic	Office	208,661	
*	Shulte Roth & Zabel	Office	230,621	
*	HQ Global	Office/Industrial	201,900	
	United Distillers	Office	137,918	
	Waterhouse Securities	Office	127,143	
*	Prudential	Office	219,416	
*	Banque Nationale De Paris	Office	144,334	
	D.E. Shaw	Office	89,526	
	Vytra Healthcare	Office	105,612	
	Metromedia Fiber Network Svcs.	Office	112,075	
*	Kramer Levin Nessen Kamin,	Office	140,892	
	Hoffman-La Roche Inc.	Office	120,736	
	Heller Ehrman White	Office	54,815	
	Lab Corp	Office	108,000	
*	Novartis	Office	150,747	
*	Draft Worldwide, Inc.	Office	124,008	
	Practicing Law Institute	Office	62,000	
	Lockheed Martin Corporation	Office	123,554	
*	State Farm	Office/Industrial	162,650	
	Estee Lauder	Industrial	370,000	
*	JP Morgan Chase Bank	Office	69,527	
	Radianz U.S. No. 2 Inc.	Office	130,009	

(1) Ranked by pro rata share of annualized base rental revenue

(2) Based on annualized base rental revenue adjusted for pro rata share of joint venture interests.

* Part or all of space occupied by tenant is in a 51% or more owned joint venture building.

PART II -- OTHER INFORMATION

Item 1. Legal Proceedings

The Company is not presently subject to any material litigation nor, to the Company's knowledge, is any litigation threatened against the Company, other than routine actions for negligence or other claims and administrative proceedings arising in the ordinary course of business, some of which are expected to be covered by liability insurance and all of which collectively are not expected to have a material adverse effect on the liquidity, results of operations or business or financial condition of the Company.

On or about October 3, 2001, Burgess Services, LLC ("Burgess Services"), Dominion Venture Group, LLC ("Dominion Venture Group") and certain affiliated parties commenced an action in Oklahoma State Court against Reckson Strategic Venture Partners, LLC ("RSVP"), the Company, and RAP-Dominion LLC ("RAP-Dominion"), a joint venture through which the Company invested with RSVP in a venture with certain of the plaintiffs. On April 10, 2002, the litigation was settled without liability on the part of the Company or the defendant. In connection with the settlement, the joint venture will be terminated.

Item 2. Changes in Securities and Use of Proceeds

During the three months ended June 30, 2002, the Registrant issued 666,466 shares of its Class A common stock, par value $0.01 per share, in exchange for an equal number of units of general partnership interest of the Operating Partnership. These transactions were exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

Item 3. Defaults Upon Senior Securities -- None

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

On May 23, 2002, the Company held its annual meeting of stockholders. The matters on which the stockholders voted, in person or by proxy, were (1) the election of four nominees as Class I directors to serve until the 2005 annual meeting of stockholders and until their respective successors are duly elected and qualified, (2) to ratify the selection of the independent auditors of the Company and (3) to approve the Company's 2002 stock option plan. The four nominees were elected, the auditors were ratified and the stock option plan was approved. The results of the voting are set for below:

ELECTION OF DIRECTORS	VOTES CAST FOR	VOTES CAST AGAINST	WITHHELD	AB
Scott Rechler	44,377,244	N/A	7,374,349	
Herve Kevenides	50,816,380	N/A	935,193	
Conrad Stephenson	50,816,380	N/A	935,193	
Lewis Ranieri	50,310,080	N/A	1,479,493	
Ratification of Auditors	50,310,816	1,184,235	N/A	25
Approval of 2002 Stock Option Plan	48,464,064	3,186,898	N/A	10

Item 5. Other Information

The Company has received approval of the Audit Committee of the Board permitting Ernst & Young, LLP, the Company's auditors to perform the following non-audit related services (i) the preparation and review of tax filings; (ii) analysis related to compliance with law including, but not limited to the REIT qualification; (iii) review of Company disclosure related issues; and (iv) analysis relating to alternative structures of potential joint ventures, acquisitions and financings.

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Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.1 2002 Stock Option Plan

99.1 Certification of Donald Rechler, Co-CEO pursuant to Section 1350 of Chapter 63 of Title 18 of the United State Code

99.2 Certification of Scott H. Rechler, Co-CEO pursuant to Section 1350 of Chapter 63 of Title 18 of the United State Code

99.3 Certification of Michael Maturo, CFO pursuant to Section 1350 of Chapter 63 of Title 18 of the United State Code

(b) During the three months ended June 30, 2002, the Registrant filed the following reports on Form 8-K:

On May 2, 2002, the Registrant submitted a report on Form 8-K under Item 9 thereof in order to submit its first quarter presentation in satisfaction of the requirements of Regulation FD.

On May 2, 2002, the Registrant submitted a report on Form 8-K under Item 9 thereof in order to submit supplemental operating and financial data for the quarter ended March 31, 2002 in satisfaction of the requirements of Regulation FD.

On May 23, 2002, the Registrant submitted a report on Form 8-K under Item 9 thereof in order to submit an annual shareholders' meeting presentation in satisfaction of the requirements of Regulation FD.

On June 18, 2002, the Registrant submitted a report on Form 8-K under Item 5 thereof relating to the public offering by the Operating Partnership of $50,000,000 aggregate principal amount of its 6.00% senior unsecured notes due 2007.

On June 28, 2002, the Registrant submitted a report on Form 8-K under Item 9 thereof in order to submit a press release concerning certain data on the Registrant's leases with WorldCom/MCI in satisfaction of the requirements of Regulation FD.

SIGNATURES

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

RECKSON ASSOCIATES REALTY CORP.

By: /s/ Scott H. Rechler

Scott H. Rechler, Co-Chief
Executive Officer

By /s/ Donald Rechler

Donald Rechler, Co-Chief
Executive Officer

/s/ Michael Maturo

Michael Maturo, Executive
Vice President, Treasurer and
Chief Financial Officer

DATE: August 12, 2002