

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

TRICO BANCSHARES /
Form 10-Q
August 09, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q
Quarterly Report Pursuant Section 13 or 15(d)
of the Securities Exchange Act of 1934

For Quarterly Period Ended June 30, 2007

Commission file number 0-10661

TRICO BANCSHARES

(Exact name of registrant as specified in its charter)

California

94-2792841

(State or other jurisdiction
incorporation or organization)

(I.R.S. Employer
Identification No.)

63 Constitution Drive, Chico, California 95973
(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code: (530) 898-0300

(Former name, former address and former fiscal year, if changed since last report)

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

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Title of Class: Common stock, no par value

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Outstanding shares as of August 7, 2007: 15,835,291

TABLE OF CONTENTS

	Page
Forward-Looking Statements	1
PART I - FINANCIAL INFORMATION	2
Item 1 - Financial Statements	2
Notes to Unaudited Condensed Consolidated Financial Statements	6
Financial Summary	16
Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations	17
Item 3 - Quantitative and Qualitative Disclosures about Market Risk	28
Item 4 - Controls and Procedures	29
PART II - OTHER INFORMATION	30
Item 1 - Legal Proceedings	30
Item 1A - Risk Factors	30
Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds	30
Item 4 - Submission of Matters to a Vote of Security Holders	30
Item 6 - Exhibits	31
Signatures	33
Exhibits	34

FORWARD-LOOKING STATEMENTS

This report on Form 10-Q contains forward-looking statements about TriCo Bancshares (the "Company") 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. When you see any of the words "believes", "expects", "anticipates", "estimates", or similar expressions, it may mean making forward-looking statements. 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. The reader is directed to the Company's annual report on Form 10-K for the year ended December 31, 2006, and Part II, Item 1A of this report 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

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

report.

1

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

TRICO BANCSHARES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data; unaudited)

	At June 30,		At Decemb
	2007	2006	200
	-----		-----
Assets:			
Cash and due from banks	\$93,636	\$84,663	\$102,
Federal funds sold	1,715	526	
	-----		-----
Cash and cash equivalents	95,351	85,189	103,
Securities available-for-sale	175,891	221,828	198,
Federal Home Loan Bank stock, at cost	8,543	8,103	8,
Loans, net of allowance for loan losses of \$16,999, \$16,893 and \$16,914	1,490,629	1,439,115	1,492,
Foreclosed assets, net of allowance for losses of \$180	187	-	
Premises and equipment, net	20,891	21,597	21,
Cash value of life insurance	44,346	42,571	43,
Accrued interest receivable	8,284	7,841	8,
Goodwill	15,519	15,519	15,
Other intangible assets, net	1,421	3,711	1,
Other assets	25,965	25,682	26,
	-----		-----
Total Assets	\$1,887,027	\$1,871,156	\$1,919,
	=====		=====
Liabilities:			
Deposits:			
Noninterest-bearing demand	\$366,321	\$354,576	\$420,
Interest-bearing	1,144,558	1,159,864	1,179,
	-----		-----
Total deposits	1,510,879	1,514,440	1,599,
Federal funds purchased	80,500	96,700	38,
Accrued interest payable	6,614	5,739	7,
Reserve for unfunded commitments	2,040	1,849	1,
Other liabilities	22,264	19,225	22,
Other borrowings	44,892	33,971	39,
Junior subordinated debt	41,238	41,238	41,
	-----		-----
Total Liabilities	1,708,427	1,713,162	1,750,
	-----		-----
Commitments and contingencies			
Shareholders' Equity:			
Common stock, no par value: 50,000,000 shares authorized; issued and outstanding:			
15,917,291 at June 30, 2007	76,394		
15,855,107 at June 30, 2006		73,337	
15,857,207 at December 31, 2006			73,
Retained earnings	106,985	90,286	100,
Accumulated other comprehensive loss, net	(4,779)	(5,629)	(4,

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Total Shareholders' Equity	178,600	157,994	169,
Total Liabilities and Shareholders' Equity	\$1,887,027	\$1,871,156	\$1,919,

See accompanying notes to unaudited condensed consolidated financial statements.

2

TRICO BANCSHARES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data; unaudited)

	Three months ended June 30, 2007	2006	Six months ended June 30, 2007	2006
Interest and dividend income:				
Loans, including fees	\$29,882	\$26,555	\$58,305	\$51,624
Debt securities:				
Taxable	1,623	2,254	3,342	4,610
Tax exempt	375	445	769	907
Dividends	101	94	223	178
Federal funds sold	5	31	8	38
Total interest income	31,986	29,379	62,647	57,357
Interest expense:				
Deposits	7,550	5,921	14,938	10,863
Federal funds purchased	1,014	1,169	1,536	1,919
Other borrowings	506	396	996	744
Junior subordinated debt	825	789	1,641	1,522
Total interest expense	9,895	8,275	19,111	15,048
Net interest income	22,091	21,104	43,536	42,309
Provision for loan losses	500	554	982	1,054
Net interest income after provision for loan losses	21,591	20,550	42,554	41,255
Noninterest income:				
Service charges and fees	5,375	4,956	10,436	9,813
Gain on sale of loans	279	313	545	611
Commissions on sale of non-deposit investment products	550	524	1,050	1,082
Increase in cash value of life insurance	405	403	810	803
Other	420	335	788	670
Total noninterest income	7,029	6,531	13,629	12,979
Noninterest expense:				
Salaries and related benefits	9,619	8,618	19,361	17,774
Other	7,824	7,658	15,042	14,924
Total noninterest expense	17,443	16,276	34,403	32,698

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Income before income taxes	11,177	10,805	21,780	21,536
Provision for income taxes	4,422	4,248	8,581	8,444
Net income	\$6,755	\$6,557	\$13,199	\$13,092
Average shares outstanding	15,916,313	15,798,565	15,897,621	15,767,555
Diluted average shares outstanding	16,463,369	16,388,855	16,439,607	16,384,225
Per share data:				
Basic earnings	\$0.42	\$0.42	\$0.83	\$0.83
Diluted earnings	\$0.41	\$0.40	\$0.80	\$0.80
Dividends paid	\$0.13	\$0.12	\$0.26	\$0.24

See accompanying notes to unaudited condensed consolidated financial statements.

3

TRICO BANCSHARES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(In thousands, except share data; unaudited)

	Shares of Common Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2005	15,707,835	\$71,412	\$81,906	(\$3,825)	\$149,493
Comprehensive income:					
Net income			13,092		13,092
Change in net unrealized gain on Securities available for sale, net				(1,804)	(1,804)
Total comprehensive income					11,288
Stock option vesting		289			289
Stock options exercised	188,187	1,630			1,630
Tax benefit of stock options exercised		192			192
Repurchase of common stock	(40,915)	(186)	(923)		(1,109)
Dividends paid (\$0.24 per share)			(3,789)		(3,789)
Balance at June 30, 2006	15,855,107	\$73,337	\$90,286	(\$5,629)	\$157,994
Balance at December 31, 2006	15,857,207	\$73,739	\$100,218	(\$4,521)	\$169,436
Comprehensive income:					
Net income			13,199		13,199
Change in net unrealized gain on Securities available for sale, net				(258)	(258)
Total comprehensive income					12,941
Stock option vesting		376			376
Stock options exercised	177,600	1,964			1,964
Tax benefit of stock options exercised		861			861

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Repurchase of common stock	(117,516)	(546)	(2,295)	(2,841)
Dividends paid (\$0.26 per share)			(4,137)	(4,137)
Balance at June 30, 2007	15,917,291	\$76,394	\$106,985	(\$4,779)
				\$178,600

See accompanying notes to unaudited condensed consolidated financial statements.

4

TRICO BANCSHARES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands; unaudited)

	For the three months ended June 30,	
	2007	2006
Operating activities:		
Net income	\$13,199	\$13,092
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property and equipment, and amortization	1,902	1,894
Amortization of intangible assets	245	696
Provision for loan losses	982	1,054
Amortization of investment securities premium, net	380	468
Originations of loans for resale	(35,677)	(37,364)
Proceeds from sale of loans originated for resale	35,853	37,616
Gain on sale of loans	(545)	(611)
Change in value of mortgage servicing rights	85	138
Gain on sale of investments	-	(12)
Loss on sale of fixed assets	5	23
Increase in cash value of life insurance	(810)	(803)
Stock option expense	376	289
Stock option tax benefits	(861)	(192)
Change in:		
Interest receivable	443	(200)
Interest payable	(934)	1,233
Other assets and liabilities, net	1,070	(3,190)
Net cash provided by operating activities	15,713	14,131
Investing activities:		
Proceeds from maturities of securities available-for-sale	21,644	25,997
Proceeds from sale of securities available-for-sale	-	9,780
Purchases of securities available-for-sale	-	(896)
Purchases of Federal Home Loan Bank stock	(223)	(501)
Loan originations and principal collections, net	1,167	(71,360)
Proceeds from sale of premises and equipment	11	2
Purchases of premises and equipment	(1,704)	(1,951)
Net cash used by investing activities	20,895	(38,929)
Financing activities:		
Net (decrease) increase in deposits	(88,270)	17,643
Net increase (decrease) in Federal funds purchased	42,500	(100)
Payments of principal on long-term other borrowings	(34)	(29)
Net change in short-term other borrowings	5,015	2,610
Stock option tax benefits	861	192

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Repurchase of common stock	(470)	-
Dividends paid	(4,137)	(3,789)
Exercise of stock options	264	521
Net cash (used) provided by financing activities	(44,271)	17,048
Net change in cash and cash equivalents	(7,663)	(7,750)
Cash and cash equivalents and beginning of period	103,014	92,939
Cash and cash equivalents at end of period	\$95,351	\$85,189
Supplemental disclosure of noncash activities:		
Loans transferred to other real estate owned	\$187	-
Unrealized loss on securities available for sale	(\$446)	(\$3,113)
Value of shares tendered in lieu of cash paid to exercise stock options and to pay related tax withholding	\$2,371	\$1,109
Supplemental disclosure of cash flow activity:		
Cash paid for interest expense	\$20,045	\$13,815
Cash paid for income taxes	\$8,300	\$10,700

See accompanying notes to unaudited condensed consolidated financial statements.

5

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: General Summary of Significant Accounting Policies

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

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, and its wholly-owned subsidiary, Tri Counties Bank (the "Bank"). All significant intercompany accounts and transactions have been eliminated in consolidation.

Nature of Operations

The Company operates 32 branch offices and 23 in-store branch offices in the California counties of Butte, Contra Costa, Del Norte, Fresno, Glenn, Kern, Lake, Lassen, Madera, Mendocino, Merced, Nevada, Placer, Sacramento, Shasta, Siskiyou, Stanislaus, Sutter, Tehama, Tulare, Yolo and Yuba. The Company's operating policy since its inception has emphasized retail banking. Most of the Company's customers are retail customers and small to medium-sized businesses.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires Management to make estimates and assumptions that affect the reported amounts of assets and

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, the Company evaluates its estimates, including those related to the adequacy of the allowance for loan losses, investments, intangible assets, income taxes and contingencies. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The allowance for loan losses, goodwill and other intangible assessments, income taxes, and the valuation of mortgage servicing rights, are the only accounting estimates that materially affect the Company's consolidated financial statements.

Significant Group Concentration of Credit Risk

The Company grants agribusiness, commercial, consumer, and residential loans to customers located throughout the northern San Joaquin Valley, the Sacramento Valley and northern mountain regions of California. The Company has a diversified loan portfolio within the business segments located in this geographical area.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold.

Investment Securities

The Company classifies its debt and marketable equity securities into one of three categories: trading, available-for-sale or held-to-maturity. Trading securities are bought and held principally for the purpose of selling in the near term. Held-to-maturity securities are those securities which the Company has the ability and intent to hold until maturity. All other securities not included in trading or held-to-maturity are classified as available-for-sale. During the six months ended June 30, 2007, and throughout 2006, the Company did not have any securities classified as either held-to-maturity or trading.

6

Available-for-sale securities are recorded at fair value. Unrealized gains and losses, net of the related tax effect, on available-for-sale securities are reported as a separate component of other accumulated comprehensive loss in shareholders' equity until realized.

Premiums and discounts are amortized or accreted over the life of the related investment security as an adjustment to yield using the effective interest method. Dividend and interest income are recognized when earned. Realized gains and losses for securities are included in earnings and are derived using the specific identification method for determining the cost of securities sold. Unrealized losses due to fluctuations in fair value of securities held to maturity or available for sale are recognized through earnings when it is determined that an other than temporary decline in value has occurred.

Federal Home Loan Bank Stock

The Bank is a member of the Federal Home Loan Bank of San Francisco ("FHLB"), and as a condition of membership, it is required to purchase stock. The amount of FHLB stock required to be purchased is based on the borrowing capacity desired by the Bank. While technically these are considered equity securities, there is no market for the FHLB stock. Therefore, the shares are considered as restricted investment securities. Such investment is carried at cost.

Loans Held for Sale

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by aggregate outstanding commitments from investors of current investor yield requirements. Net unrealized losses are recognized through a valuation allowance by charges to income. At June 30, 2007 and 2006, and December 31, 2006, the Company's balance of loans held for sale was immaterial.

Mortgage loans held for sale are generally sold with the mortgage servicing rights retained by the Company. The carrying value of mortgage loans sold is reduced by the cost allocated to the associated mortgage servicing rights. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold.

Loans

Loans are reported at the principal amount outstanding, net of unearned income and the allowance for loan losses. Loan origination and commitment fees and certain direct loan origination costs are deferred, and the net amount is amortized as an adjustment of the related loan's yield over the estimated life of the loan. Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. Accrual of interest on loans is generally discontinued either when reasonable doubt exists as to the full, timely collection of interest or principal or when a loan becomes contractually past due by 90 days or more with respect to interest or principal. When loans are 90 days past due, but in Management's judgment are well secured and in the process of collection, they may be classified as accrual. When a loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed. Income on such loans is then recognized only to the extent that cash is received and where the future collection of principal is probable. Interest accruals are resumed on such loans only when they are brought fully current with respect to interest and principal and when, in the judgment of Management, the loans are estimated to be fully collectible as to both principal and interest. All impaired loans are classified as nonaccrual loans.

Reserve for Unfunded Commitments

The reserve for unfunded commitments is established through a provision for losses - unfunded commitments charged to noninterest expense. The reserve for unfunded commitments is an amount that Management believes will be adequate to absorb probable losses inherent in existing commitments, including unused portions of revolving lines of credits and other loans, standby letters of credits, and unused deposit account overdraft privilege. The reserve for unfunded commitments is based on evaluations of the collectibility, and prior loss experience of unfunded commitments. The evaluations take into consideration such factors as changes in the nature and size of the loan portfolio, overall loan portfolio quality, loan concentrations, specific problem loans and related unfunded commitments, and current economic conditions that may affect the borrower's or depositor's ability to pay.

7

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans and deposit-related overdrafts are charged against the allowance for loan losses when Management believes that the collectibility of the principal is unlikely or, with respect to consumer installment loans, according to an established delinquency schedule. The allowance is an amount that Management believes will be adequate to absorb probable losses inherent in existing loans and leases, based on evaluations of the collectibility, impairment and prior loss experience of loans and leases. The evaluations take into consideration such factors as changes in the nature and size of the portfolio, overall portfolio quality, loan concentrations, specific problem

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

loans, and current economic conditions that may affect the borrower's ability to pay. The Company defines a loan as impaired when it is probable the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's original effective interest rate. As a practical expedient, impairment may be measured based on the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through a valuation allowance.

Credit risk is inherent in the business of lending. As a result, the Company maintains an allowance for loan losses to absorb losses inherent in the Company's loan portfolio. This is maintained through periodic charges to earnings. These charges are shown in the Consolidated Income Statements as provision for loan losses. All specifically identifiable and quantifiable losses are immediately charged off against the allowance. However, for a variety of reasons, not all losses are immediately known to the Company and, of those that are known, the full extent of the loss may not be quantifiable at that point in time. The balance of the Company's allowance for loan losses is meant to be an estimate of these unknown but probable losses inherent in the portfolio. For purposes of this discussion, "loans" shall include all loans and lease contracts that are part of the Company's portfolio.

The Company formally assesses the adequacy of the allowance on a quarterly basis. Determination of the adequacy is based on ongoing assessments of the probable risk in the outstanding loan portfolio, and to a lesser extent the Company's loan commitments. These assessments include the periodic re-grading of credits based on changes in their individual credit characteristics including delinquency, seasoning, recent financial performance of the borrower, economic factors, changes in the interest rate environment, growth of the portfolio as a whole or by segment, and other factors as warranted. Loans are initially graded when originated. They are re-graded as they are renewed, when there is a new loan to the same borrower, when identified facts demonstrate heightened risk of nonpayment, or if they become delinquent. Re-grading of larger problem loans occur at least quarterly. Confirmation of the quality of the grading process is obtained by independent credit reviews conducted by consultants specifically hired for this purpose and by various bank regulatory agencies.

The Company's method for assessing the appropriateness of the allowance for loan losses and the reserve for unfunded commitments includes specific allowances for identified problem loans and leases as determined by SFAS 114, formula allowance factors for pools of credits, and allowances for changing environmental factors (e.g., interest rates, growth, economic conditions, etc.). Allowance factors for loan pools are based on the previous 5 years historical loss experience by product type. Allowances for specific loans are based on SFAS 114 analysis of individual credits. Allowances for changing environmental factors are Management's best estimate of the probable impact these changes have had on the loan portfolio as a whole. This process is explained in detail in the notes to the Company's audited consolidated financial statements in its Annual Report on Form 10-K for the year ended December 31, 2006.

Based on the current conditions of the loan portfolio, Management believes that the allowance for loan losses and the reserve for unfunded commitments, which collectively stand at \$19,039,000 at June 30, 2007, are adequate to absorb probable losses inherent in the Company's loan portfolio. No assurance can be given, however, that adverse economic conditions or other circumstances will not result in increased losses in the portfolio.

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

The following tables summarize the activity in the allowance for loan losses, reserve for unfunded commitments, and allowance for losses (which is comprised of the allowance for loan losses and the reserve for unfunded commitments) for the periods indicated (dollars in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Allowance for loan losses:				
Balance at beginning of period	\$16,895	\$16,644	\$16,914	\$16,226
Provision for loan losses	500	554	982	1,054
Loans charged off	(751)	(564)	(1,490)	(921)
Recoveries of previously charged-off loans	355	259	593	534
Net charge-offs	(396)	(305)	(897)	(387)
Balance at end of period	\$16,999	\$16,893	\$16,999	\$16,893
Reserve for unfunded commitments:				
Balance at beginning of period	\$1,966	\$1,813	\$1,849	\$1,813
Provision for losses - Unfunded commitments	74	36	191	36
Balance at end of period	\$2,040	\$1,849	\$2,040	\$1,849
Balance at end of period:				
Allowance for loan losses			\$16,999	\$16,893
Reserve for unfunded commitments			2,040	1,849
Allowance for losses			\$19,039	\$18,742
As a percentage of total loans:				
Allowance for loan losses			1.13%	1.16%
Reserve for unfunded commitments			0.13%	0.13%
Allowance for losses			1.26%	1.29%

Mortgage Servicing Rights

Mortgage servicing rights (MSRs) represent the Company's right to a future stream of cash flows based upon the contractual servicing fee associated with servicing mortgage loans. Our MSRs arise from residential mortgage loans that we originate and sell, but retain the right to service the loans. For sales of residential mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on relative fair values of the loan and the servicing right. The net gain from the retention of the servicing right is included in gain on sale of loans in noninterest income when the loan is sold. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. MSR's are included in other assets. Servicing fees are recorded in noninterest income when earned.

Effective with the Company's early adoption of SFAS 156, beginning as of January 1, 2006 MSR's are carried at fair value, with changes in fair value reported in noninterest income in the period in which the change occurs. On or before December 31, 2005, MSR's were carried at the lower of amortized cost or market value. The cumulative effect related to the adoption of this change in accounting from lower of amortized cost or market value to fair value on January 1, 2006 was immaterial.

9

The determination of fair value of our MSR's requires management judgment because they are not actively traded. The determination of fair value for MSR's requires valuation processes which combine the use of discounted cash flow models and extensive analysis of current market data to arrive at an estimate of fair value. The cash flow and prepayment assumptions used in our discounted cash flow model are based on empirical data drawn from the historical performance of our MSR's, which we believe are consistent with assumptions used by market participants valuing similar MSR's, and from data obtained on the performance of similar MSR's. The key assumptions used in the valuation of MSR's include mortgage prepayment speeds and the discount rate. These variables can, and generally will, change from quarter to quarter as market conditions and projected interest rates change. The key risks inherent with MSR's are prepayment speed and changes in interest rates.

The following tables summarize the activity in, and the main assumptions we used to determine the fair value of mortgage servicing rights for the periods indicated (dollars in thousands):

	Six months ended June 30,	
	2007	2006
Mortgage servicing rights:		
Balance at beginning of period	\$3,912	\$3,638
Additions	369	359
Change in fair value	(85)	(138)

Balance at end of period	\$4,196	\$3,859
	=====	
Servicing fees received	\$491	\$474
Balance of loans serviced at:		
Beginning of period	\$389,636	\$373,163
End of period	\$400,600	\$382,625
Weighted-average prepayment speed (CPR)	11.5%	11.5%
Discount rate	10.0%	10.0%

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Company has entered into commitments to extend credit, including commitments under credit card arrangements, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded when they are funded.

Premises and Equipment

Land is carried at cost. Buildings and equipment, including those acquired under capital lease, are stated at cost less accumulated depreciation and

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

amortization. Depreciation and amortization expenses are computed using the straight-line method over the estimated useful lives of the related assets or lease terms. Asset lives range from 3-10 years for furniture and equipment and 15-40 years for land improvements and buildings.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, management periodically performs valuations and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other noninterest expense.

Goodwill and Other Intangible Assets

Goodwill represents the excess of costs over fair value of assets of businesses acquired. Goodwill and other intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment.

10

The Company has identifiable intangible assets consisting of core deposit premiums and minimum pension liability. Core deposit premiums are amortized using an accelerated method over a period of ten years. Intangible assets related to minimum pension liability are adjusted annually based upon actuarial estimates.

The following table summarizes the Company's goodwill intangible as of June 30, 2007 and December 31, 2006.

(Dollars in Thousands)	December 31, 2006	Additions	Reductions	June 30, 2007
Goodwill	\$15,519	-	-	\$15,519

The following table summarizes the Company's core deposit intangibles as of June 30, 2007 and December 31, 2006.

(Dollars in Thousands)	December 31, 2006	Additions	Reductions	June 30, 2007
Core deposit intangibles	\$13,643	-	(\$10,278)	\$3,365
Accumulated amortization	(11,977)	\$10,278	(245)	1,944
Core deposit intangibles, net	\$1,666	\$10,278	(\$10,523)	\$1,421

Core deposit intangibles are amortized over their expected useful lives. Such lives are periodically reassessed to determine if any amortization period adjustments are indicated.

The following table summarizes the Company's estimated core deposit intangible amortization for each of the five succeeding years:

Years Ended	Estimated Core Deposit Intangible Amortization (Dollars in thousands)
-----	-----

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

2007	\$490
2008	\$523
2009	\$328
2010	\$260
2011	\$65
Thereafter	-

Impairment of Long-Lived Assets and Goodwill

Long-lived assets, such as premises and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

On December 31 of each year, goodwill is tested for impairment, and is tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. This determination is made at the reporting unit level and consists of two steps. First, the Company determines the fair value of a reporting unit and compares it to its carrying amount. Second, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill.

11

Income Taxes

The Company's accounting for income taxes is based on an asset and liability approach. The Company recognizes the amount of taxes payable or refundable for the current year, and deferred tax assets and liabilities for the future tax consequences that have been recognized in its financial statements or tax returns. The measurement of tax assets and liabilities is based on the provisions of enacted tax laws.

Stock-Based Compensation

On January 1, 2006 the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123R), using the modified-prospective transition method. Under this transition method, compensation cost recognized during the six months ended June 30, 2007 and June 30, 2006 include: (a) compensation cost for all share-based awards granted prior to, but not yet vested as of, January 1, 2007 and January 1, 2006, respectively, based on the grant-date fair value and related service period estimates in accordance with the original provisions of SFAS 123 and (b) compensation cost for all share-based awards granted subsequent to January 1, 2007 and January 1, 2006, respectively, based on the grant-date fair value and related service periods estimated in accordance with the provisions of SFAS 123R. Historically, stock options are the only type of share-based award granted by the Company.

Prior to the adoption of SFAS 123R, the Company used the intrinsic value method

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

to account for its stock option plans (in accordance with the provisions of Accounting Principles Board Opinion No. 25). Intrinsic value is the difference between share fair market value and option exercise price. Under this method, compensation expense was recognized for awards of options to purchase shares of common stock to employees under compensatory plans only if the fair market value of the stock at the option grant date (or other measurement date, if later) was greater than the amount the employee was required to pay to acquire the stock. Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123), permitted companies to continue using the intrinsic value method or to adopt a fair value based method to account for stock option plans. The fair value based method would have resulted in the recognition, as expense over the vesting period, of the fair value of all stock-based awards on the date of grant.

SFAS 123R clarifies and expands the guidance in SFAS 123 in several areas, including measuring fair value and attributing compensation cost to reporting periods. SFAS 123R includes a requirement to: (a) estimate forfeitures of share-based awards at the date of grant, (b) expense share-based awards granted to retirement eligible employees and those employees with non-substantive non-compete agreements immediately, (c) attribute compensation costs of share-based award grants to the stated future vesting period, and (d) recognize compensation cost of all share-based awards based upon the grant-date fair value (including pre-2006 options).

The following table shows the number, weighted-average exercise price, intrinsic value, and weighted average remaining contractual life, of options exercisable, options not yet exercisable, and total options outstanding as of June 30, 2007:

(dollars in thousands except exercise price)	Currently Exercisable	Currently Not Exercisable	Total Outstanding
Number of options	1,165,577	385,354	1,550,931
Weighted average exercise price	\$12.01	\$20.35	\$14.08
Intrinsic value	\$12,785,274	\$1,015,201	\$13,800,475
Weighted average remaining contractual term (yrs.)	5.22	8.69	5.91

The options for 371,494 shares that are not currently exercisable as of June 30, 2007 are expected to vest, on a weighted-average basis, over the next 2.96 years, and the Company is expected to recognize \$2,175,000 of compensation costs related to these options as they vest.

12

Earnings Per Share

Basic earnings per share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustments to income that would result from assumed issuance. Potential common shares that may be issued by the Company relate solely from outstanding stock options, and are determined using the treasury stock method. In applying the treasury method, the Company uses the entire tax benefit that would result from the assumed issuance.

Earnings per share have been computed based on the following:

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Net Income	\$6,754	\$6,557	\$13,199	\$13,092
Average number of common shares outstanding	15,916	15,799	15,898	15,768
Effect of dilutive stock options	547	590	542	616
Average number of common shares outstanding used to calculate diluted earnings per share	16,463	16,389	16,440	16,384

There were 87,000 and 0 options excluded from the computation of diluted earnings per share for the three month periods ended June 30, 2006 and 2005, respectively, because the effect of these options was antidilutive.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

The components of other comprehensive income (loss) and related tax effects are as follows:

(in thousands)	Three months ended June 30,		Six Months Ended Jun	
	2007	2006	2007	2006
Unrealized holding gains (losses) on available-for-sale securities	(\$1,366)	(\$516)	(\$446)	(\$3,1
Tax effect	575	217	188	1,3
Unrealized holding gains (losses) on available-for-sale securities, net of tax	(\$791)	(\$299)	(\$258)	(\$1,8

The components of accumulated other comprehensive loss, included in shareholders' equity, are as follows:

	June 30, 2007	December 31, 2006
	(in thousands)	
Net unrealized losses on available-for-sale securities	(\$4,301)	(\$3,855)
Tax effect	1,809	1,621

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Unrealized holding losses on available-for-sale securities, net of tax	(2,492)	(2,234)
Minimum pension liability	(3,946)	(3,946)
Tax effect	1,659	1,659
Minimum pension liability, net of tax	(2,287)	(2,287)
Accumulated other comprehensive loss	(\$4,779)	(\$4,521)

13

Retirement Plans

The Company has supplemental retirement plans covering directors and key executives. These plans are non-qualified defined benefit plans and are unsecured and unfunded. The Company has purchased insurance on the lives of the participants and intends to use the cash values of these policies to pay the retirement obligations.

The following table sets forth the net periodic benefit cost recognized for the plans:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Net pension cost included the following components:				
Service cost-benefits earned during the period	\$150	\$139	\$300	\$278
Interest cost on projected benefit obligation	146	132	292	164
Amortization of net obligation at transition	-	1	-	1
Amortization of prior service cost	45	50	90	100
Recognized net actuarial loss	28	34	56	68
Net periodic pension cost	\$369	\$356	\$738	\$711

During the six months ended June 30, 2007 and 2006, the Company contributed and paid out as benefits \$284,000 and \$286,000, respectively, to participants under the plans. For the year ending December 31, 2007, the Company currently expects to contribute and pay out as benefits \$528,000 to participants under the plans.

Recent Accounting Pronouncements

In February 2006, the FASB issued FASB Statement of Financial Accounting Standards No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140 (SFAS 155). SFAS 155 amends SFAS 133, Accounting for Derivative Instruments and Hedging Activities and SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS 155 (i) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, (ii) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS 133, (iii) establishes a requirement to evaluate interests in securitized financial assets

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, (iv) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and (v) amends SFAS 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. The adoption of SFAS 155 on January 1, 2007 had no impact the Company's consolidated financial statements.

In September 2006, the FASB issued FASB Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for the Company on January 1, 2008 and is not expected to have a significant impact on the Company's consolidated financial statements.

In September 2006, the FASB issued FASB Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88 106, and 132(R) (SFAS 158). SFAS 158 requires an employer to recognize the overfunded or underfunded status of defined benefit postretirement plans as an asset or a liability in its statement of financial position. The funded status is measured as the difference between plan assets at fair value and the benefit obligation (the projected benefit obligation for pension plans or the accumulated benefit obligation for other postretirement benefit plans). An employer is also required to measure the funded status of a plan as of the date of its year-end statement of financial position with changes in the funded status recognized through comprehensive income. SFAS 158 also requires certain disclosures regarding the effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of gains or losses, prior service costs or credits, and the transition asset or obligation. The Company was required to recognize the funded status of its defined benefit post-retirement benefit plans in its consolidated financial statements for the year ended December 31, 2006. The Company had previously recognized the funded status of its supplemental retirement plans for directors and key executives in prior consolidated financial statements. The Company has no other defined benefit post-retirement benefit plans. The requirement to measure plan assets and benefit obligations as of the date of the year-end statement of financial position is effective for the Company's consolidated financial statements beginning with the fiscal year ended after December 15, 2008. The Company currently uses December 31 as the measurement date for its defined benefit post-retirement benefit plans.

14

In February 2007, the FASB issued FASB Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment to FASB Statement No. 115 (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is effective for the Company on January 1, 2008 and is not expected to have a significant impact on the Company's consolidated financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109 (FIN 48). FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. FIN 48 also provides guidance on the accounting for and disclosure of unrecognized tax benefits, interest and penalties. FIN 48 was effective for the Company on January 1, 2007 and did not have a significant impact on the Company's consolidated financial statements.

In September 2006, the Emerging Issues Task Force (EITF) of the FASB ratified EITF Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Agreements, and EITF Issue No. 06-5, Accounting for Purchases of Life Insurance - Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance. EITF 06-4 provides that an employer should recognize a liability for future benefits based on the substantive agreement with the employee. The Issue should be applied to fiscal years beginning after December 15, 2007, with earlier application permitted. EITF 06-5 provides that in determining the amount recognized as an asset, a policyholder should consider the cash surrender value as well as any additional amounts included in the contractual terms of the policy that will be paid upon surrender. The amount that could be realized should be calculated at the individual policy level and consider any probable contractual limitations, including the exclusion of any additional amounts paid for the surrender of an entire group of policies. The Issue is effective for fiscal years beginning after December 15, 2007. The Company has life insurance arrangements. The Company is currently evaluating the impact of adoption of these rules on the Company's consolidated financial statements.

Reclassifications

Certain amounts previously reported in the 2006 financial statements have been reclassified to conform to the 2007 presentation. These reclassifications did not affect previously reported net income or total shareholders' equity.

15

TRICO BANCSHARES
Financial Summary
(dollars in thousands, except per share amounts; unaudited)

	Three months ended June 30,		Six months e June 30,
	2007	2006	2007
Net Interest Income (FTE)	\$22,308	\$21,358	\$43,974
Provision for loan losses	(500)	(554)	(982)
Noninterest income	7,029	6,531	13,629
Noninterest expense	(17,443)	(16,276)	(34,403)
Provision for income taxes (FTE)	(4,639)	(4,502)	(9,019)
Net income	\$6,755	\$6,557	\$13,199

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

=====			
Earnings per share:			
Basic	\$0.42	\$0.42	\$0.83
Diluted	\$0.41	\$0.40	\$0.80
Per share:			
Dividends paid	\$0.13	\$0.12	\$0.26
Book value at period end	\$11.22	\$9.96	
Tangible book value at period end	\$10.16	\$8.75	
Average common shares outstanding	15,916	15,799	15,898
Average diluted shares outstanding	16,463	16,389	16,440
Shares outstanding at period end	15,917	15,855	
At period end:			
Loans, net	\$1,490,629	\$1,439,115	
Total assets	1,887,027	1,871,156	
Total deposits	1,510,879	1,514,440	
Other borrowings	44,892	33,971	
Junior subordinated debt	41,238	41,238	
Shareholders' equity	\$178,600	\$157,994	
Financial Ratios:			
During the period (annualized):			
Return on assets	1.44%	1.42%	1.41%
Return on equity	15.11%	16.68%	14.95%
Net interest margin(1)	5.25%	5.10%	5.19%
Net loan charge-offs to average loans	0.10%	0.09%	0.12%
Efficiency ratio(1)	59.46%	58.36%	59.72%
At Period End:			
Equity to assets	9.46%	8.44%	
Total capital to risk-adjusted assets	11.76%	11.11%	
Allowance for losses to loans(2)	1.26%	1.29%	

(1) Fully taxable equivalent (FTE).

(2) Allowance for losses includes allowance for loan losses and reserve for unfunded commitments.

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

As TriCo Bancshares (the "Company") has not commenced any business operations independent of Tri Counties Bank (the "Bank"), the following discussion pertains primarily to the Bank. Average balances, including such balances used in calculating certain financial ratios, are generally comprised of average daily balances for the Company. Within Management's Discussion and Analysis of Financial Condition and Results of Operations, interest income and net interest income are generally presented on a fully tax-equivalent (FTE) basis. The presentation of interest income and net interest income on a FTE basis is a common practice within the banking industry. Interest income and net interest income are shown on a non-FTE basis in the Part I - Financial Information section of this Form 10-Q, and a reconciliation of the FTE and non-FTE presentations is provided below in the discussion of net interest income.

Critical Accounting Policies and Estimates

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to the adequacy of the allowance for loan losses, intangible assets, and contingencies. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. (See caption "Allowance for Loan Losses" for a more detailed discussion).

Results of Operations

The following discussion and analysis is designed to provide a better understanding of the significant changes and trends related to the Company and the Bank's financial condition, operating results, asset and liability management, liquidity and capital resources and should be read in conjunction with the Unaudited Condensed Consolidated Financial Statements of the Company and the Notes thereto.

Following is a summary of the components of fully taxable equivalent ("FTE") net income for the periods indicated (dollars in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Net Interest Income (FTE)	\$22,308	\$21,358	\$43,974	\$42,826
Provision for loan losses	(500)	(554)	(982)	(1,054)
Noninterest income	7,029	6,531	13,629	12,979
Noninterest expense	(17,443)	(16,276)	(34,403)	(32,698)
Provision for income taxes (FTE)	(4,639)	(4,502)	(9,019)	(8,961)
Net income	\$6,755	\$6,557	\$13,199	\$13,092

The Company had quarterly earnings of \$6,755,000, or \$0.41 per diluted share, for the three months ended June 30, 2007. These results represent a 2.5% increase from the \$0.40 earnings per diluted share reported for the three months ended June 30, 2006 on earnings of \$6,557,000. The improvement in results from the year-ago quarter was due to a \$950,000 (4.4%) increase in fully tax-equivalent net interest income to \$22,308,000, a \$54,000 (9.7%) decrease in the provision for loan losses to \$500,000, and a \$498,000 (7.6%) increase in noninterest income to \$7,029,000. These contributing factors were partially offset by a \$1,167,000 (7.2%) increase in noninterest expense to \$17,443,000 for the quarter ended June 30, 2007.

The Company reported earnings of \$13,199,000, or \$0.80 per diluted share, for the six months ended June 30, 2007. These results represent no change from the \$0.80 earnings per diluted share reported for the six months ended June 30, 2006 on earnings of \$13,092,000. The flat results when compared to the year-ago period was primarily due to a \$1,148,000 (2.7%) increase in fully tax-equivalent net interest income to \$43,974,000, a \$72,000 (6.8%) decrease in provision for loan losses to \$982,000, and a \$650,000 (5.0%) increase in noninterest income to \$13,629,000. These contributing factors were partially offset by a \$1,705,000 (5.2%) increase in noninterest expense to \$34,403,000 for the six months ended June 30, 2006.

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Net Interest Income

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

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Interest income	\$31,986	\$29,379	\$62,647	\$57,357
Interest expense	(9,895)	(8,275)	(19,111)	(15,048)
FTE adjustment	217	254	438	517
Net interest income (FTE)	\$22,308	\$21,358	\$43,974	\$42,826
Average interest-earning assets	\$1,698,620	\$1,676,705	\$1,695,597	\$1,661,741
Net interest margin (FTE)	5.25%	5.10%	5.19%	5.15%

The Company's primary source of revenue is net interest income, or the difference between interest income on interest-earning assets and interest expense in interest-bearing liabilities.

Net interest income (FTE) during the second quarter of 2007 increased \$950,000 (4.4%) from the same period in 2006 to \$22,308,000. The increase in net interest income (FTE) was due to a \$21,915,000 (1.3%) increase in average balances of interest-earning assets to \$1,698,620,000 and a 0.15% increase in net interest margin (FTE) to 5.25%.

Net interest income (FTE) during the first six months of 2007 increased \$1,148,000 (2.7%) from the same period in 2006 to \$43,974,000. The increase in net interest income (FTE) was due to a \$33,856,000 (2.0%) increase in average balances of interest-earning assets to \$1,695,597,000 and a 0.04% increase in net interest margin (FTE) to 5.19%.

Interest and Fee Income

Interest and fee income (FTE) for the second quarter of 2007 increased \$2,570,000 (8.7%) from the second quarter of 2006. The increase was due to a \$21,915,000 (1.3%) increase in average interest-earning assets to \$1,698,620,000 and a 0.51% increase in the yield on those average interest-earning assets to 7.58%. The growth in interest-earning assets was due to a \$79,178,000 (5.5%) increase in average loan balances to \$1,506,913,000 that was partially offset by a decrease of \$55,202,000 (22.4%) in average balances of investments to \$191,311,000. The increase in the yield on average interest-earning assets was mainly due to a 0.49% increase in yield on loans to 7.93% and a change in the mix of earning assets from lower-earning investments towards higher-earning loans. The increase in loan yields from the year-ago period is mainly due to the effect of a 2.50% increase in the prime rate of lending from March 31, 2005 to June 30, 2006, and some modest increase in market yields for longer-term fixed rate loans since June 30, 2006.

Interest and fee income (FTE) for the six months ended June 30, 2007 increased \$5,211,000 (9.0%) from the same period of 2006. The increase was the net effect of a \$33,856,000 (2.0%) increase in average interest-earning assets to \$1,695,597,000 and a 0.47% increase in the yield on those average interest-earning assets to 7.44%. The growth in interest-earning assets was due to a \$92,346,000 (6.6%) increase in average loan balances to \$1,498,484,000 that was partially offset by a decrease of \$57,266,000 (22.5%) in average balances of investments to \$196,774,000. The increase in the yield on average interest-earning assets was mainly due to a 0.48% increase in yield on loans to

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

7.78% and a change in the mix of earning assets from lower-earning investments towards higher-earning loans. The increase in loan yields from the year-ago period is mainly due to the effect of a 2.50% increase in the prime rate of lending from March 31, 2005 to June 30, 2006, and some modest increase in market yields for longer term fixed rate loans since June 30, 2006.

18

Interest Expense

Interest expense increased \$1,620,000 (19.6%) to \$9,895,000 in the second quarter of 2007 compared to the year-ago quarter. The average balance of interest-bearing liabilities decreased \$12,516,000 (0.9%) to \$1,311,144,000 in the second quarter compared to the year-ago quarter. The decrease in the average balance of interest-bearing liabilities was due primarily to decreases in interest-bearing demand deposits (down \$16,278,000 or 6.7%), savings deposits (down \$20,353,000 or 5.0%) and Federal funds purchased (down \$17,278,000 or 18.5%), that were partially offset by an increase in time deposits (up \$31,531,000 or 6.2%). The average rate paid on interest-bearing liabilities in the quarter ended June 30, 2007 increased 0.52% to 3.02% compared to the year-ago quarter as a result of increases in market interest rates and changes in the mix of interest-bearing liabilities towards higher paying time deposits.

Interest expense increased \$4,063,000 (27.0%) to \$19,111,000 for the six months ended June 30, 2007 compared to \$15,048,000 in the year-ago period. The average balance of interest-bearing liabilities decreased \$1,014,000 (0.1%) to \$1,303,179,000 for the six months ended June 30, 2007 compared to the year-ago period. The decrease in the average balance of interest-bearing liabilities was due primarily to decreases in interest-bearing demand deposits (down \$16,836,000 or 6.9%), savings deposits (down \$35,338,000 or 8.5%) and Federal funds purchased (down \$22,840,000 or 28.3%), that were partially offset by an increase in time deposits (up \$64,280,000 or 13.2%). The average rate paid on interest-bearing liabilities in the six month period ended June 30, 2007 increased 0.62% to 2.93% compared to the year-ago quarter as a result of increases in market interest rates and changes in the mix of interest-bearing liabilities towards higher paying time deposits.

Net Interest Margin (FTE)

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

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Yield on interest-earning assets	7.58%	7.07%	7.44%	6.97%
Rate paid on interest-bearing Liabilities	3.02%	2.50%	2.93%	2.31%
Net interest spread	4.56%	4.57%	4.51%	4.66%
Impact of all other net noninterest-bearing funds	0.69%	0.53%	0.68%	0.49%
Net interest margin	5.25%	5.10%	5.19%	5.15%

Net interest margin for the three months ended June 30, 2007 increased 0.15% compared to the three months ended June 30, 2006. This increase in net interest margin was mainly due to an 0.16% increase in the impact of net

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

noninterest-bearing funds to 0.69% from 0.53% in the year-ago three month period that was partially offset by a 0.01% decrease in net interest spread as the average yield on interest-earning assets increased 0.51% while the average rate paid on interest-bearing liabilities increased 0.52% from the year-ago three month period.

Net interest margin for the six months ended June 30, 2007 increased 0.04% compared to the six months ended June 30, 2006. This increase in net interest margin was mainly due to a 0.19% increase in the impact of net noninterest-bearing funds to 0.68% from 0.49% in the year-ago six month period. The increase in the impact of net noninterest-bearing funds was partially offset by a 0.15% decrease in net interest spread as the average yield on interest-earning assets increased 0.47% while the average rate paid on interest-bearing liabilities increased 0.62% from the year-ago six month period.

19

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 amounts of interest income from average interest-earning assets and 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 loans only to the extent cash payments have been received and applied to interest income. Yields on securities and certain loans have been adjusted upward to reflect the effect of income thereon exempt from federal income taxation at the current statutory tax rate (dollars in thousands).

	For the three months ended					
	June 30, 2007			June 30, 2006		
	Average Balance	Interest Income/ Expense	Rates Earned Paid	Average Balance	Interest Income/ Expense	Ra Ear Pa
Assets:						
Loans	\$1,506,913	\$29,882	7.93%	\$1,427,735	\$26,555	7.
Investment securities - taxable	160,444	1,724	4.30%	212,158	2,348	4.
Investment securities - nontaxable	30,867	592	7.68%	34,355	699	8.
Federal funds sold	396	5	5.05%	2,457	31	5.
Total interest-earning assets	1,698,620	32,203	7.58%	1,676,705	29,633	7.
Other assets	172,640			173,782		
Total assets	\$1,871,260			\$1,850,487		
Liabilities and shareholders' equity:						
Interest-bearing demand deposits	\$225,632	\$114	0.20%	\$241,910	\$122	0.
Savings deposits	382,835	1,480	1.55%	403,188	843	0.
Time deposits	543,249	5,956	4.39%	511,718	4,956	3.
Federal funds purchased	76,078	1,014	5.33%	93,356	1,169	5.
Other borrowings	42,112	506	4.81%	32,250	396	4.
Junior subordinated debt	41,238	825	8.00%	41,238	789	7.

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Total interest-bearing liabilities	1,311,144	9,895	3.02%	1,323,660	8,275	2.00%
Noninterest-bearing deposits	349,017			340,755		
Other liabilities	32,263			28,840		
Shareholders' equity	178,836			157,232		
Total liabilities and shareholders' equity	\$1,871,260			\$1,850,487		
Net interest spread(1)			4.56%			4.00%
Net interest income and interest margin(2)		\$22,308	5.25%		\$21,358	5.00%

(1) Net interest spread represents the average yield earned on interest-earning assets minus the average rate paid on interest-bearing liabilities.

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

20

For the six months ended

	June 30, 2007			June 30, 2006		
	Average Balance	Interest Income/Expense	Rates Earned/Paid	Average Balance	Interest Income/Expense	Rates Earned/Paid
Assets:						
Loans	\$1,498,484	\$58,305	7.78%	\$1,406,138	\$51,624	7.00%
Investment securities - taxable	165,258	3,565	4.31%	219,161	4,788	4.00%
Investment securities - nontaxable	31,516	1,207	7.66%	34,879	1,424	8.00%
Federal funds sold	339	8	4.72%	1,563	38	4.00%
Total interest-earning assets	1,695,597	63,085	7.44%	1,661,741	57,874	6.00%
Other assets	172,757			174,723		
Total assets	\$1,868,354			\$1,836,464		
Liabilities and shareholders' equity:						
Interest-bearing demand deposits	\$227,852	\$229	0.20%	\$244,688	\$244	0.00%
Savings deposits	382,359	2,657	1.39%	417,697	1,640	0.00%
Time deposits	552,081	12,052	4.37%	487,801	8,979	3.00%
Federal funds purchased	57,801	1,536	5.31%	80,641	1,919	4.00%
Other borrowings	41,848	996	4.76%	32,128	744	4.00%
Junior subordinated debt	41,238	1,641	7.96%	41,238	1,522	7.00%
Total interest-bearing liabilities	1,303,179	19,111	2.93%	1,304,193	15,048	2.00%
Noninterest-bearing deposits	355,311			348,012		
Other liabilities	33,315			28,438		

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Shareholders' equity	176,549		155,821	
	-----		-----	
Total liabilities and shareholders' equity	\$1,868,354		\$1,836,464	
	=====		=====	
Net interest spread(1)		4.51%		4.
Net interest income and interest margin(2)	\$43,974	5.19%	\$42,826	5.
	=====		=====	

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

21

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 (FTE) and interest expense from changes in average asset and liability balances (volume) and changes in average interest rates for the periods indicated. Changes not solely attributable to volume or rates have been allocated in proportion to the respective volume and rate components (dollars in thousands).

Three months ended June 30, 2007
compared with three months
ended June 30, 2006

	Volume	Rate	Total

Increase (decrease) in interest income:			
Loans	\$1,473	\$1,854	\$3,327
Investment securities	(682)	(49)	(731)
Federal funds sold	(26)	-	(26)
	-----	-----	-----
Total interest-earning assets	765	1,805	2,570
	-----	-----	-----
Increase (decrease) in interest expense:			
Interest-bearing demand deposits	(8)	-	(8)
Savings deposits	(43)	680	637
Time deposits	305	695	1,000
Federal funds purchased	(216)	61	(155)
Other borrowings	121	(11)	110
Junior subordinated debt	-	36	36
	-----	-----	-----
Total interest-bearing liabilities	159	1,461	1,620
	-----	-----	-----
Increase in Net Interest Income	\$606	\$344	\$950
	=====	=====	=====

Six months ended June 30, 2007
compared with six months
ended June 30, 2006

	Volume	Rate	Total

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Increase (decrease) in interest income:			
Loans	\$3,389	\$3,292	\$6,681
Investment securities	(1,400)	(40)	(1,440)
Federal funds sold	(30)	-	(30)

Total interest-earning assets	1,959	3,252	5,211

Increase (decrease) in interest expense:			
Interest-bearing demand deposits	(17)	2	(15)
Savings deposits	(140)	1,157	1,017
Time deposits	1,183	1,890	3,073
Federal funds purchased	(544)	161	(383)
Other borrowings	225	27	252
Junior subordinated debt	-	119	119

Total interest-bearing liabilities	707	3,356	4,063

Increase in Net Interest Income	\$1,252	\$ (104)	\$1,148
	=====		

22

Provision for Loan Losses

The Company provided \$500,000 for loan losses in the second quarter of 2007 versus \$554,000 in the second quarter of 2006. During the second quarter of 2007, the Company recorded \$396,000 of net loan charge offs versus \$305,000 of net loan charge-offs in the year earlier quarter.

The Company provided \$982,000 for loan losses during the six months ended June 30, 2007 versus \$1,054,000 during the six months ended June 30, 2006. During the six months ended June 30, 2007, the Company recorded \$897,000 of net loan charge-offs versus \$387,000 of net loan charge-offs in the year earlier six-month period.

Noninterest Income

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

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006

Service charges on deposit accounts	\$3,858	\$3,706	\$7,417	\$7,417
ATM fees and interchange	1,046	896	1,995	1,995
Other service fees	544	542	1,109	1,109
Change in value of mortgage servicing rights	(73)	(188)	(85)	(85)
Gain on sale of loans	279	313	545	545
Commissions on sale of nondeposit investment products	550	524	1,050	1,050
Increase in cash value of life insurance	405	403	810	810
Gain on sale of investments	-	12	-	-
Other noninterest income	420	323	788	788

Total noninterest income	\$7,029	\$6,531	\$13,629	\$13,629
	=====			

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Noninterest income for the second quarter of 2007 increased \$498,000 (7.6%) from the year-ago quarter. The increase in noninterest income from the year-ago quarter was mainly due to a \$152,000 (4.1%) increase in service charges on deposit accounts to \$3,858,000, a \$150,000 (16.7%) increase in ATM fees and interchange to \$1,046,000, and a \$115,000 improvement in change in value of mortgage servicing rights to \$73,000. The increase in service charges on deposit accounts was primarily due to growth in customer count. The increase in ATM fees and interchange was due to growth in customer count and expansion of the ATM network as part of new branch openings. The improvement in change in value of mortgage servicing rights is primarily due to a slowdown in refinance activity which extends the estimated life of existing mortgages and enhances the value of the related mortgage servicing rights.

Noninterest income for the six months ended June 30, 2007 increased \$650,000 (5.0%) to \$13,629,000 from the same period in 2006. The increase in noninterest income from the year-ago six months ended June 30, 2006 was mainly due to a \$237,000 (3.3%) increase in service charges on deposit accounts to \$7,417,000, and a \$281,000 (16.4%) increase in ATM fees and interchange to \$1,995,000. The increase in service charges on deposit accounts was primarily due to growth in customer count. The increase in ATM fees and interchange was due to growth in customer count and expansion of ATM network as part of new branch openings.

23

Noninterest Expense

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

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Salaries & benefits	\$9,619	\$8,618	\$19,361	\$17,774
Occupancy	1,178	1,106	2,348	2,128
Equipment	1,072	1,024	2,170	2,169
Advertising and marketing	600	533	1,004	973
Professional fees	462	510	809	890
ATM network charges	498	466	926	900
Telecommunications	419	415	828	785
Data processing and software	499	394	918	806
Intangible amortization	122	350	245	696
Courier service	156	316	454	613
Postage	203	249	424	493
Operational losses	125	85	185	129
Assessments	84	80	165	160
Other	2,406	2,130	4,566	4,182
Total	\$17,443	\$16,276	\$34,403	\$32,698
Average full time equivalent staff	630	621	631	614
Noninterest expense to revenue (FTE)	59.46%	58.36%	59.72%	58.59%

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Noninterest expense for the second quarter of 2007 increased \$1,167,000 (7.2%) compared to the second quarter of 2006. Salaries and benefits expense increased \$1,001,000 (11.6%) to \$9,619,000. The increase in salaries and benefits expense was mainly due to annual salary increases, and a 1.5% increase in average full time equivalent staff made up primarily of new employees at the Company's recently opened branches. Other categories of noninterest expense such as equipment, occupancy and ATM network charges also increased, in part, due to these newly opened branches. Intangible amortization decreased \$228,000 (65%) to \$122,000 during the second quarter of 2007 as the core deposit intangible related to the purchase of several branches in 1997 became fully amortized in the fourth quarter of 2006.

Noninterest expense for the six months ended June 30, 2007 increased \$1,705,000 (5.2%) compared to the six months ended June 30, 2006. Salaries and benefits expense increased \$1,587,000 (8.9%) to \$19,361,000. The increase in salaries and benefits expense was mainly due to annual salary increases, and a 2.8% increase in average full time equivalent staff made up primarily of new employees at the Company's recently opened branches. Other categories of noninterest expense such as equipment, occupancy and ATM network charges also increased, in part, due to these newly opened branches. Intangible amortization decreased \$451,000 (65%) to \$245,000 during the six months ended June 30, 2007 as the core deposit intangible related to the purchase of several branches in 1997 became fully amortized in the fourth quarter of 2006.

Provision for Income Tax

The effective tax rate for the three months ended June 30, 2007 was 39.6% and reflects an increase from 39.3% for the three months ended June 30, 2006. The effective tax rate for the six months ended June 30, 2007 was 39.4% and reflects an increase from 39.2% for the six months ended June 30, 2006. The provision for income taxes for all periods presented is primarily attributable to the respective level of earnings and the incidence of allowable deductions, particularly from increase in cash value of life insurance, tax-exempt loans and state and municipal securities.

24

Classified Assets

The Company closely monitors the markets in which it conducts its lending operations and continues its strategy to control exposure to loans with high credit risk. Asset reviews are performed using grading standards and criteria similar to those employed by bank regulatory agencies. Assets receiving lesser grades fall under the "classified assets" category, which includes all nonperforming assets and potential problem loans, and receive an elevated level of attention to ensure collection.

The following is a summary of classified assets on the dates indicated (dollars in thousands):

	At June 30, 2007			At December 31, 2006		
	Gross	Guaranteed	Net	Gross	Guaranteed	Net
Classified loans	\$22,314	\$6,273	\$16,041	\$13,116	\$6,514	\$6,602
Other classified assets	187	-	187	-	-	-
Total classified assets	\$22,501	\$6,273	\$16,228	\$13,116	\$6,514	\$6,602
Allowance for loan losses/classified loans			104.8%			256.2%

Classified assets, net of guarantees of the U.S. Government, including its

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

agencies and its government-sponsored agencies at June 30, 2007, increased \$9,626,000 (245.8%) to \$16,228,000 from \$6,602,000 at December 31, 2006.

Nonperforming Loans

Loans are reviewed on an individual basis for reclassification to nonaccrual status when any one of the following occurs: the loan becomes 90 days past due as to interest or principal, the full and timely collection of additional interest or principal becomes uncertain, the loan is classified as doubtful by internal credit review or bank regulatory agencies, a portion of the principal balance has been charged off, or the Company takes possession of the collateral. Loans that are placed on nonaccrual even though the borrowers continue to repay the loans as scheduled are classified as "performing nonaccrual" and are included in total nonperforming loans. The reclassification of loans as nonaccrual does not necessarily reflect Management's judgment as to whether they are collectible.

Interest income is not accrued on loans where Management has determined that the borrowers will be unable to meet contractual principal and/or interest obligations, unless the loan is well secured and in the process of collection. When a loan is placed on nonaccrual, any previously accrued but unpaid interest is reversed. Income on such loans is then recognized only to the extent that cash is received and where the future collection of principal is probable. Interest accruals are resumed on such loans only when they are brought fully current with respect to interest and principal and when, in the judgment of Management, the loans are estimated to be fully collectible as to both principal and interest.

Interest income on nonaccrual loans, which would have been recognized during the six months, ended June 30, 2007, if all such loans had been current in accordance with their original terms, totaled \$1,142,000. Interest income actually recognized on these loans during the six months ended June 30, 2007 was \$794,000.

The Company's policy is to place loans 90 days or more past due on nonaccrual status. In some instances when a loan is 90 days past due Management does not place it on nonaccrual status because the loan is well secured and in the process of collection. A loan is considered to be in the process of collection if, based on a probable specific event, it is expected that the loan will be repaid or brought current. Generally, this collection period would not exceed 30 days. Loans where the collateral has been repossessed are classified as OREO or, if the collateral is personal property, the loan is classified as other assets on the Company's consolidated financial statements.

Management considers both the adequacy of the collateral and the other resources of the borrower in determining the steps to be taken to collect nonaccrual loans. Alternatives that are considered are foreclosure, collecting on guarantees, restructuring the loan or collection lawsuits.

As shown in the following table, total nonperforming assets net of guarantees of the U.S. Government, including its agencies and its government-sponsored agencies, increased \$8,848,000 (296%) to \$13,360,000 during the first six months of 2007. Nonperforming assets net of guarantees represent 0.71% of total assets. All nonaccrual loans are considered to be impaired when determining the need for a specific valuation allowance. The Company continues to make a concerted effort to work problem and potential problem loans to reduce risk of loss.

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

(dollars in thousands):

	At June 30, 2007			At December 31, 2006		
	Gross	Guaranteed	Net	Gross	Guaranteed	Net
Performing nonaccrual loans	\$18,708	\$6,135	\$12,573	\$10,255	\$6,372	\$3,883
Nonperforming, nonaccrual loans	600	-	600	561	-	561
Total nonaccrual loans	19,308	6,135	13,173	10,816	6,372	4,444
Loans 90 days past due and still accruing	-	-	-	68	-	-
Total nonperforming loans	19,308	6,135	13,173	10,884	6,372	4,505
Other real estate owned	187	-	187	-	-	-
Total nonperforming assets	\$19,495	\$6,135	\$13,360	\$10,884	\$6,372	\$4,505
Nonperforming loans to total loans			0.87%			0.33%
Nonperforming assets to total assets			0.71%			0.23%
Allowance for loan losses to nonperforming loans			129%			37%

Capital Resources

The current and projected capital position of the Company and the impact of capital plans and long-term strategies are reviewed regularly by Management.

On March 11, 2004, the Board of Directors approved an increase in the maximum number of shares to be repurchased under the Company's stock repurchase plan originally announced on July 31, 2003 from 250,000 to 500,000 effective on April 9, 2004, solely to conform with the two-for-one stock split effective on April 9, 2004. The 250,000 shares originally authorized for repurchase under this plan represented approximately 3.2% of the Company's approximately 7,852,000 common shares outstanding as of July 31, 2003. This plan has no stated expiration date for the repurchases, which may occur from time to time as market conditions allow. As of June 30, 2007, the Company had repurchased 394,371 shares under this plan as adjusted for the 2-for-1 stock split paid on April 30, 2004, which left 105,629 shares available for repurchase under the plan.

The Company's primary capital resource is shareholders' equity, which was \$178,600,000 at June 30, 2007. This amount represents an increase of \$9,164,000 from December 31, 2006, the net result of comprehensive income for the period of \$12,941,000, the issuance of common shares via the exercise of stock options for proceeds of \$1,964,000, the tax effects of stock option exercises of \$8,612,000, and the effect of stock option vesting of \$376,000, partially offset by the retirement of common stock with an aggregate value of \$2,841,000 tendered by employees, in lieu of cash, to exercise stock options, and dividends paid of \$4,137,000. The Company's ratio of equity to total assets was 9.46%, 8.44%, and 8.82% as of June 30, 2007, June 30, 2006, and December 31, 2006, respectively.

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

	At June 30,		At December 31, 2006	Minimum Regulatory Requirement
	2007	2006		
Tier I Capital	10.76%	10.08%	10.44%	4.00%
Total Capital	11.76%	11.11%	11.44%	8.00%
Leverage ratio	11.11%	9.99%	10.49%	4.00%

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

The information presented under "Liquidity" at Item 3 of this Report is incorporated herein by reference.

26

Off-Balance Sheet Items

The Bank has certain ongoing commitments under operating and capital leases. These commitments do not significantly impact operating results. As of June 30, 2007 commitments to extend credit and commitments related to the Bank's deposit overdraft privilege product were the Bank's only financial instruments with off-balance sheet risk. The Bank has not entered into any contracts for financial derivative instruments such as futures, swaps, options, etc. Commitments to extend credit were \$685,589,000 and \$623,133,000 at June 30, 2006 and December 31, 2006, respectively, and represent 45.5% of the total loans outstanding at June 30, 2007 versus 41.3% at December 31, 2006. Commitments related to the Bank's deposit overdraft privilege product totaled \$36,528,000 and \$33,290,000 at June 30, 2007 and December 31, 2006, respectively.

27

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Asset and Liability Management

The goal for managing the assets and liabilities of the Company is to maximize shareholder value and earnings while maintaining a high quality balance sheet without exposing the Company to undue interest rate risk. The Board of Directors has overall responsibility for the Company's interest rate risk management policies. The Company has an Asset and Liability Management Committee (ALCO) which establishes and monitors guidelines to control the sensitivity of earnings to changes in interest rates.

Activities involved in asset/liability management include but are not limited to lending, accepting and placing deposits, investing in securities and issuing debt. Interest rate risk is the primary market risk associated with asset/liability management. Sensitivity of earnings to interest rate changes arises when yields on assets change in a different time period or in a different amount from that of interest costs on liabilities. To mitigate interest rate risk, the structure of the balance sheet is managed with the goal that movements of interest rates on assets and liabilities are correlated and contribute to earnings even in periods of volatile interest rates. The asset/liability management policy sets limits on the acceptable amount of variance in net interest margin, net income and market value of equity under changing interest environments. Market value of equity is the net present value of estimated cash flows from the Company's assets, liabilities and off-balance sheet items. The Company uses simulation models to forecast net interest margin, net income and market value of equity.

Simulation of net interest margin, net income and market value of equity under various interest rate scenarios is the primary tool used to measure interest rate risk. Using computer-modeling techniques, the Company is able to estimate the potential impact of changing interest rates on net interest margin, net income and market value of equity. A balance sheet forecast is prepared using inputs of actual loan, securities and interest-bearing liability (i.e. deposits/borrowings) positions as the beginning base.

In the simulation of net interest margin and net income under various interest rate scenarios, the forecast balance sheet is processed against seven interest rate scenarios. These seven interest rate scenarios include a flat rate scenario, which assumes interest rates are unchanged in the future, and six additional rate ramp scenarios ranging from +300 to -300 basis points around the

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

flat scenario in 100 basis point increments. These ramp scenarios assume that interest rates increase or decrease evenly (in a "ramp" fashion) over a twelve-month period and remain at the new levels beyond twelve months.

In the simulation of market value of equity under various interest rate scenarios, the forecast balance sheet is processed against seven interest rate scenarios. These seven interest rate scenarios include the flat rate scenario described above, and six additional rate shock scenarios ranging from +300 to -300 basis points around the flat scenario in 100 basis point increments. These rate shock scenarios assume that interest rates increase or decrease immediately (in a "shock" fashion) and remain at the new level in the future.

At June 30, 2007, the results of the simulations noted above indicate that given a "flat" balance sheet scenario, and if deposit rates track general interest rate changes by approximately 50%, the Company's balance sheet is slightly liability sensitive. "Liability sensitive" implies that earnings decrease when interest rates rise, and increase when interest rates decrease. The magnitude of all the simulation results noted above is within the Bank's policy guidelines. The asset liability management policy limits aggregate market risk, as measured in this fashion, to an acceptable level within the context of risk-return trade-offs.

The simulation results noted above do not incorporate any management actions, which might moderate the negative consequences of interest rate deviations. Therefore, they do not reflect likely actual results, but serve as conservative estimates of interest rate risk.

At June 30, 2007 and 2006, the Company had no material derivative financial instruments.

There have been no material changes from the information regarding market risk disclosed under "Market Risk Management" at Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

28

Liquidity

The Company's principal source of asset liquidity is federal funds sold and marketable investment securities available for sale. At June 30, 2007, federal funds sold and investment securities available for sale totaled \$177,606,000, representing a decrease of \$21,549,000 (10.8%) from December 31, 2006, and a decrease of \$44,748,000 (20.1%) from June 30, 2006. In addition, the Company generates additional liquidity from its operating activities. The Company's profitability during the first six months of 2007 generated cash flows from operations of \$16,574,000 compared to \$14,323,000 during the first six months of 2006. Additional cash flows may be provided by financing activities, primarily the acceptance of deposits and borrowings from banks. Maturities and sales of investment securities produced cash inflows of \$21,664,000 and \$0 respectively, during the six months ended June 30, 2007 compared to \$25,997,000 and \$9,780, respectively, for the six months ended June 30, 2006. During the six months ended June 30, 2007, the Company invested \$0 in securities and received \$1,167,000 from a net decline in loan balances, compared to investing \$896,000 and \$71,360,000 in securities and net loan growth, respectively, during the first six months of 2006. These changes in investment and loan balances contributed to net cash provided by investing activities of \$20,895,000 during the six months ended June 30, 2007, compared to net cash used for investing activities of \$38,929,000 during the six months ended June 30, 2006. Financing activities used net cash of \$45,132,000 during the six months ended June 30, 2007, compared to net cash provided by financing activities of \$16,856,000 during the six months ended June 30, 2006. A decrease in deposit balances accounted for an \$88,270,000 use of financing funds during the six months ended

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

June 30, 2007 compared to a \$17,643,000 source of financing funds during the six months ended June 30, 2006 from an increase in deposit balances. Federal funds borrowed increased \$42,500,000 in the first six months of 2007 compared to a \$100,000 decrease in the first six months of 2006. Short-term other borrowings increased \$5,015,000 and \$2,610,000 during the six months ended June 30, 2007 and 2006, respectively. Dividends paid used \$4,137,000 and \$3,789,000 of cash during the six months ended June 30, 2007 and 2006, respectively. Repurchase of common stock used \$470,000 and \$0 of cash during the six months ended June 30, 2007 and 2006, respectively. Also, the Company's liquidity is dependent on dividends received from the Bank. Dividends from the Bank are subject to certain regulatory restrictions.

Item 4. Controls and Procedures

The Chief Executive Officer, Richard Smith, and the Chief Financial Officer, Thomas Reddish, evaluated the effectiveness of the Company's disclosure controls and procedures as of June 30, 2007 ("Evaluation Date"). Based on that evaluation, they concluded that as of the Evaluation Date the Company's disclosure controls and procedures are effective to allow timely communication to them of information relating to the Company and the Bank required to be disclosed in its filings with the Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934, as amended ("Exchange Act"). Disclosure controls and procedures are Company controls and other procedures that are designed to ensure that information required to be disclosed by the Company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

No changes in the Company's internal control over financial reporting occurred during the first six months of 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

29

PART II - OTHER INFORMATION

Item 1 - Legal Proceedings

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

Item 1A - Risk Factors

There have been no material changes to the risk factors previously disclosed in Item 1A to Part I of our Annual Report on Form 10-K for the year ended December 31, 2006.

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

The following table shows information concerning the common stock repurchased by the Company during the second quarter of 2007 pursuant to the Company's stock repurchase plan originally announced on July 31, 2003, as amended on March 11, 2004, to conform with the Company's two-for-one stock split effective on April 9, 2004, which is discussed in more detail under "Capital Resources" in this report:

Period	(a) Total number	(b) Average price	(c) Total number of	(d) Maximum number
--------	------------------	-------------------	---------------------	--------------------

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

	of Shares purchased	paid per share	shares purchased as part of publicly announced plans or programs	of shares that may be purchased under plans or programs
Apr. 1-30, 2007	-	-	-	105,629
May 1-31, 2007	-	-	-	105,629
Jun. 1-30, 2007	-	-	-	105,629
Total	-	-	-	105,629

During the quarter ended June 30, 2007, Employees tendered no shares of the Company's common stock in lieu of cash to exercise options.

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

(a) The Company's Annual Meeting of Shareholders was held on May 22, 2007.

(b) and (c) The following ten directors were elected at the meeting:

	Votes For	Votes Against/Withheld	Abstentions
William J. Casey	12,565,089	379,342	-
Donald J. Amaral	12,450,025	609,470	-
Craig S. Compton	12,580,188	349,144	-
John S.A. Hasbrook	12,458,979	591,562	-
Michael W. Koehnen	12,623,979	261,562	-
Donald E. Murphy	12,580,391	348,738	-
Steve G. Nettleton	12,623,829	261,862	-
Richard P. Smith	12,580,401	348,718	-
Carroll R. Taresh	12,623,879	261,762	-
Alex A. Vereschagin, Jr.	12,570,407	368,706	-

The shareholders ratified the appointment of Moss Adams LLP as independent public accountants of the Company for 2007. 12,694,412 shares were voted for the ratification, 42,429 shares were voted against and 148,700 shares abstained.

30

Item 6 - Exhibits

- 3.1* Restated Articles of Incorporation dated May 9, 2003, filed as Exhibit 3.1 to TriCo's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003.
- 3.2* Bylaws of TriCo Bancshares, as amended, filed as Exhibit 3.2 to TriCo's Form S-4 Registration Statement dated January 16, 2003 (No. 333-102546).
- 4* Certificate of Determination of Preferences of Series AA Junior Participating Preferred Stock filed as Exhibit 3.3 to TriCo's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001.
- 10.1* Rights Agreement dated June 25, 2001, between TriCo and Mellon Investor Services LLC filed as Exhibit 1 to TriCo's Form 8-A dated July 25, 2001.

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

- 10.2* Form of Change of Control Agreement dated as of August 23, 2005, between TriCo, Tri Counties Bank and each of Bruce Belton, Craig Carney, Gary Coelho, W.R. Hagstrom, Andrew Mastorakis, Rick Miller, Richard O'Sullivan, Thomas Reddish, and Ray Rios filed as Exhibit 10.2 to TriCo's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.
- 10.3* TriCo's 1995 Incentive Stock Option Plan filed as Exhibit 4.1 to TriCo's Form S-8 Registration Statement dated August 23, 1995 (No. 33-62063).
- 10.4* TriCo's 2001 Stock Option Plan as amended filed as Exhibit 10.7 to TriCo's Annual Report on Form 10-K for the year ended December 31, 2004.
- 10.5* Amended Employment Agreement between TriCo and Richard Smith dated March 20, 2007 filed as Exhibit 10.1 to TriCo's Report on Form 8-K dated March 20, 2007.
- 10.6* Tri Counties Bank Executive Deferred Compensation Plan dated September 1, 1987, as restated April 1, 1992, and amended and restated effective as of January 1, 2004 filed as Exhibit 10.9 to TriCo's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.
- 10.7* Tri Counties Bank Deferred Compensation Plan for Directors effective January 1, 2005 filed as Exhibit 10.10 to TriCo's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.
- 10.8* 2005 Tri Counties Bank Deferred Compensation Plan for Executives and Directors effective January 1, 2005 filed as Exhibit 10.11 to TriCo's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.
- 10.9* Tri Counties Bank Supplemental Retirement Plan for Directors dated September 1, 1987, as restated January 1, 2001, and amended and restated January 1, 2004 filed as Exhibit 10.12 to TriCo's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.
- 10.10* 2004 TriCo Bancshares Supplemental Retirement Plan for Directors effective January 1, 2004 filed as Exhibit 10.13 to TriCo's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.
- 31
- 10.11* Tri Counties Bank Supplemental Executive Retirement Plan effective September 1, 1987, as amended and restated January 1, 2004 filed as Exhibit 10.14 to TriCo's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.
- 10.12* 2004 TriCo Bancshares Supplemental Executive Retirement Plan effective January 1, 2004 filed as Exhibit 10.15 to TriCo's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.
- 10.13* Form of Joint Beneficiary Agreement effective March 31, 2003 between Tri Counties Bank and each of Craig Carney, Richard Miller, Richard O'Sullivan, Thomas Reddish, and Richard Smith, filed as Exhibit 10.14 to TriCo's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.
- 10.14* Form of Joint Beneficiary Agreement effective March 31, 2003 between

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Tri Counties Bank and each of Don Amaral, William Casey, Craig Compton, John Hasbrook, Michael Koehnen, Donald Murphy, Carroll Taresh, and Alex Vereshagin, filed as Exhibit 10.15 to TriCo's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.

- 10.15* Form of Tri-Counties Bank Executive Long Term Care Agreement effective June 10, 2003 between Tri Counties Bank and each of Craig Carney, Richard Miller, Richard O'Sullivan and Thomas Reddish, filed as Exhibit 10.16 to TriCo's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.
- 10.16* Form of Tri-Counties Bank Director Long Term Care Agreement effective June 10, 2003 between Tri Counties Bank and each of Don Amaral, William Casey, Craig Compton, John Hasbrook, Michael Koehnen, Donald Murphy, Carroll Taresh, and Alex Vereschagin, filed as Exhibit 10.17 to TriCo's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.
- 10.17* Form of Indemnification Agreement between TriCo Bancshares/Tri Counties Bank and each of the directors of TriCo Bancshares/Tri Counties Bank effective on the date that each director is first elected, filed as Exhibit 10.18 to TriCo's Annual Report on Form 10-K for the year ended December 31, 2003.
- 10.18* Form of Indemnification Agreement between TriCo Bancshares/Tri Counties Bank and each of W.R. Hagstrom, Craig Carney, Richard Miller, Raymond Rios, Richard O'Sullivan, Thomas Reddish, and Richard Smith filed as Exhibit 10.21 to TriCo's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.
- 21.1 Tri Counties Bank, a California banking corporation, TriCo Capital Trust I, a Delaware business trust, and TriCo Capital Trust II, a Delaware business trust, are the only subsidiaries of Registrant
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of CEO
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of CFO
- 32.1 Section 1350 Certification of CEO
- 32.2 Section 1350 Certification of CFO

* Previously filed and incorporated by reference.

32

SIGNATURES

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

TRICO BANCSHARES
(Registrant)

Date: August 7, 2007

/s/ Thomas J. Reddish

Thomas J. Reddish
Executive Vice President and
Chief Financial Officer

33

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

EXHIBITS

Exhibit 31.1

Rule 13a-14(a)/15d-14(a) Certification of CEO

I, Richard P. Smith, certify that;

1. I have reviewed this quarterly report on Form 10-Q of TriCo Bancshares;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors;
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Date: August 7, 2007

/s/ Richard P. Smith

Richard P. Smith
President and Chief Executive Officer

34

Exhibit 31.2

Rule 13a-14(a)/15d-14(a) Certification of CFO

I, Thomas J. Reddish, certify that;

1. I have reviewed this quarterly report on Form 10-Q of TriCo Bancshares;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors;
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data;

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

and

- b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2007

/s/ Thomas J. Reddish

Thomas J. Reddish
Executive Vice President and
Chief Financial Officer

35

Exhibit 32.1

Section 1350 Certification of CEO

In connection with the Quarterly Report of TriCo Bancshares (the "Company") on Form 10-Q for the period ended June 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard P. Smith, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Richard P. Smith

Richard P. Smith
President and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to TriCo Bancshares and will be retained by TriCo Bancshares and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

Section 1350 Certification of CFO

In connection with the Quarterly Report of TriCo Bancshares (the "Company") on Form 10-Q for the period ended June 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas J. Reddish, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Thomas J. Reddish

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Thomas J. Reddish
Executive Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to TriCo Bancshares and will be retained by TriCo Bancshares and furnished to the Securities and Exchange Commission or its staff upon request.