

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

TRICO BANCSHARES /  
Form 10-Q  
November 07, 2006

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 September 30, 2006      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)

530-898-0300

-----  
(Registrant's telephone number, including area code)

-----  
(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:

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Title of Class: Common stock, no par value

Outstanding shares as of November 3, 2006: 15,857,107

### 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	18
Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Item 3 - Quantitative and Qualitative Disclosures about Market Risk	30
Item 4 - Controls and Procedures	31
PART II - OTHER INFORMATION	32
Item 1 - Legal Proceedings	32
Item 1A - Risk Factors	32
Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds	32
Item 4 - Submission of Matters to a Vote of Security Holders	32
Item 6 - Exhibits	33
Signatures	35
Exhibits	36

### 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, 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

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Company's annual report on Form 10-K for the year ended December 31, 2005, 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 report.

1

### PART I - FINANCIAL INFORMATION

#### Item 1. Financial Statements

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

	At September 30, 2006	2005	At Decem 2
<b>Assets:</b>			
Cash and due from banks	\$78,281	\$85,413	\$90,
Federal funds sold	1,387	218	2,
Cash and cash equivalents	79,668	85,631	92,
Securities available-for-sale	209,886	271,134	260,
Federal Home Loan Bank stock, at cost	8,206	7,516	7,
Loans, net of allowance for loan losses			
of \$16,993, \$15,796 and \$16,226	1,490,166	1,312,294	1,368,
Foreclosed assets, net of allowance for losses			
of \$180, \$180 and \$180	-	-	
Premises and equipment, net	21,556	21,223	21,
Cash value of life insurance	42,991	41,519	41,
Accrued interest receivable	8,637	7,080	7,
Goodwill	15,519	15,519	15,
Other intangible assets, net	3,361	4,373	4,
Other assets	24,014	20,567	21,
Total Assets	\$1,904,004	\$1,786,856	\$1,841,
<b>Liabilities:</b>			
Deposits:			
Noninterest-bearing demand	\$357,754	\$346,456	\$368,
Interest-bearing	1,167,420	1,091,843	1,128,
Total deposits	1,525,174	1,438,299	1,496,
Federal funds purchased	106,500	103,200	96,
Accrued interest payable	7,341	3,960	4,
Reserve for unfunded commitments	1,849	1,674	1,
Other liabilities	20,913	20,452	19,
Other borrowings	35,848	31,711	31,
Junior subordinated debt	41,238	41,238	41,
Total Liabilities	1,738,863	1,640,534	1,691,

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Commitments and contingencies

Shareholders' Equity:

Common stock, no par value: 50,000,000 shares authorized;

issued and outstanding:

15,857,107 at September 30, 2006	73,545		
15,728,106 at September 30, 2005		71,412	
15,707,835 at December 31, 2005			71,
Retained earnings	95,203	77,448	81,
Accumulated other comprehensive loss, net	(3,607)	(2,538)	(3,8
	-----	-----	-----
Total Shareholders' Equity	165,141	146,322	149,
	-----	-----	-----
Total Liabilities and Shareholders' Equity	\$1,904,004	\$1,786,856	\$1,841,
	=====	=====	=====

See accompanying notes to unaudited condensed consolidated financial statements.

2

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

	Three months ended September 30,		Nine months ended	
	2006	2005	2006	2005
	-----	-----	-----	-----
Interest and dividend income:				
Loans, including fees	\$28,901	\$22,254	\$80,525	\$62,48
Debt securities:				
Taxable	1,938	2,528	6,548	7,865
Tax exempt	431	468	1,338	1,297
Dividends	144	80	322	218
Federal funds sold	7	4	45	18
	-----	-----	-----	-----
Total interest income	31,421	25,334	88,778	71,880
	-----	-----	-----	-----
Interest expense:				
Deposits	6,844	3,824	17,707	10,526
Federal funds purchased	1,448	696	3,367	1,117
Other borrowings	442	351	1,186	1,007
Junior subordinated debt	842	648	2,364	1,779
	-----	-----	-----	-----
Total interest expense	9,576	5,519	24,624	14,429
	-----	-----	-----	-----
Net interest income	21,845	19,815	64,154	57,451
	-----	-----	-----	-----
Provision for loan losses	235	947	1,289	1,608
	-----	-----	-----	-----
Net interest income after provision for loan losses	21,610	18,868	62,865	55,843
	-----	-----	-----	-----
Noninterest income:				
Service charges and fees	5,056	4,795	14,869	13,362
Gain on sale of loans	264	474	875	1,195
Commissions on sale of non-deposit investment				

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

products	447	535	1,529	1,727
Increase in cash value of life insurance	420	420	1,223	1,040
Other	462	408	1,132	945
Total noninterest income	6,649	6,632	19,628	18,269
Noninterest expense:				
Salaries and related benefits	9,276	8,584	27,050	25,361
Other	7,750	7,096	22,674	20,949
Total noninterest expense	17,026	15,680	49,724	46,310
Income before income taxes	11,233	9,820	32,769	27,802
Provision for income taxes	4,413	3,859	12,857	10,865
Net income	\$6,820	\$5,961	\$19,912	\$16,937
Average shares outstanding	15,855,933	15,687,547	15,797,014	15,706,380
Diluted average shares outstanding	16,365,858	16,330,035	16,378,796	16,328,489
Per share data:				
Basic earnings	\$0.43	\$0.38	\$1.26	\$1.08
Diluted earnings	\$0.42	\$0.37	\$1.22	\$1.04
Dividends paid	\$0.12	\$0.11	\$0.36	\$0.33

See accompanying notes to unaudited condensed consolidated financial statements.

3

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

	Shares of Common Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	To
Balance at December 31, 2004	15,723,317	\$70,699	\$67,785	(\$352)	\$138,
Comprehensive income:					
Net income			16,937		16,
Change in net unrealized gain on Securities available for sale, net				(2,186)	(2,
Total comprehensive income					14,
Stock options exercised	133,289	949			
Tax benefit of stock options exercised		342			
Repurchase of common stock	(128,500)	(578)	(2,085)		(2,
Dividends paid (\$0.33 per share)			(5,189)		(5,
Balance at September 30, 2005	15,728,106	\$71,412	\$77,448	(\$2,538)	\$146,

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Balance at December 31, 2005	15,707,835	\$71,412	\$81,906	(\$3,825)	\$149,
Comprehensive income:					
Net income			19,912		19,
Change in net unrealized gain on Securities available for sale, net				218	
Total comprehensive income					20
Stock option vesting		468			
Stock options exercised	190,187	1,646			1,
Tax benefit of stock options exercised		205			
Repurchase of common stock	(40,915)	(186)	(923)		(1,
Dividends paid (\$0.36 per share)			(5,692)		(5,
Balance at September 30, 2006	15,857,107	\$73,545	\$95,203	(\$3,607)	\$165,

See accompanying notes to unaudited condensed consolidated financial statements.

4

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

	For the nine months ended September	
	2006	2005
	-----	
Operating activities:		
Net income	\$19,912	\$16,937
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property and equipment, and amortization	2,816	2,818
Amortization of intangible assets	1,046	1,035
Provision for loan losses	1,289	1,608
Amortization of investment securities premium, net	689	973
Originations of loans for resale	(51,959)	(59,861)
Proceeds from sale of loans originated for resale	52,338	60,396
Gain on sale of loans	(875)	(1,195)
Amortization of mortgage servicing rights	-	490
Change in market value of mortgage servicing rights	(256)	-
Gain on sale of investments	(12)	-
Loss on disposal of fixed assets	27	95
Increase in cash value of life insurance	(1,223)	(1,040)
Stock option vesting expense	468	-
Change in:		
Interest receivable	(996)	(607)

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Interest payable	2,835	679
Other assets and liabilities, net	(880)	234
Net cash provided by operating activities	25,219	22,562
Investing activities:		
Proceeds from maturities of securities available-for-sale	40,208	45,147
Proceeds from sales of securities available-for-sale	10,780	-
Purchases of securities available-for-sale	(896)	(35,013)
Purchases of Federal Home Loan Bank stock	(604)	(735)
Loan originations and principal collections, net	(122,646)	(155,460)
Proceeds from sale of premises and equipment	3	24
Purchases of premises and equipment	(2,715)	(3,853)
Net cash used by investing activities	(75,870)	(149,890)
Financing activities:		
Net increase in deposits	28,377	89,466
Net increase in Federal funds purchased	9,700	56,800
Payments of principal on long-term other borrowings	(44)	(38)
Net change in short-term other borrowings	4,502	3,597
Repurchase of common stock	-	(2,663)
Dividends paid	(5,692)	(5,189)
Exercise of stock options	537	949
Net cash provided by financing activities	37,380	142,922
Net change in cash and cash equivalents	(13,271)	15,594
Cash and cash equivalents and beginning of period	92,939	70,037
Cash and cash equivalents at end of period	\$79,668	\$85,631
Supplemental disclosure of noncash activities:		
Unrealized loss on securities available for sale	\$377	(\$3,772)
Income tax benefit from stock option exercises	\$205	\$342
Value of common stock tendered, in lieu of cash, to pay for exercise of stock options	\$1,109	-
Supplemental disclosure of cash flow activity:		
Cash paid for interest expense	\$21,789	\$13,750
Cash paid for income taxes	\$15,100	\$11,030

See accompanying notes to unaudited condensed consolidated financial statements

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

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

consolidated financial statements and accompanying notes as well as other information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

### 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 22 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 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 nine months ended September 30, 2006, and throughout 2005, the Company did not have any securities classified as either held-to-maturity or trading.



## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

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

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 September 30, 2006 and 2005, and December 31, 2005, 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

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

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 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

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

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 Consolidated Financial Statements in its Annual Report on Form 10-K for the year ended December 31, 2005.

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 \$18,842,000 at September 30, 2006, 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.

8

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		Nine months ended	
	September 30,		September 30,	
	2006	2005	2006	2005
Allowance for loan losses:				
Balance at beginning of period	\$16,893	\$14,892	\$16,226	\$14,525
Provision for loan losses	235	947	1,289	1,608
Loans charged off	(368)	(479)	(1,289)	(1,287)
Recoveries of previously charged-off loans	233	436	767	950
Net charge-offs	(135)	(43)	(522)	(337)
Balance at end of period	\$16,993	\$15,796	\$16,993	\$15,796
Reserve for unfunded commitments:				
Balance at beginning of period	\$1,849	\$1,671	\$1,813	\$1,532
Provision for losses - Unfunded commitments	-	3	36	142
Balance at end of period	\$1,849	\$1,674	\$1,849	\$1,674
Balance at end of period:				
Allowance for loan losses			\$16,993	\$15,796

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Reserve for unfunded commitments	1,849	1,674
	-----	-----
Allowance for losses	\$18,842	\$17,470
	=====	=====
As a percentage of total loans:		
Allowance for loan losses	1.13%	1.19%
Reserve for unfunded commitments	0.12%	0.13%
	-----	-----
Allowance for losses	1.25%	1.32%
	=====	=====

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 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. MSRs 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 MSRs 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, MSRs 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.

The determination of fair value of our MSRs requires management judgment because they are not actively traded. The determination of fair value for MSRs 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 MSRs, which we believe are consistent with assumptions used by market participants valuing similar MSRs, and from data obtained on the performance of similar MSRs. The key assumptions used in the valuation of MSRs 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 MSRs are prepayment speed and changes in interest rates.

9

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):

	Nine months ended September 30,	
	-----	
	2006	2005

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

-----		
Mortgage servicing rights:		
Balance at beginning of period	\$3,638	\$3,476
Additions	496	659
Amortization	-	(490)
Change in fair value	(256)	-
-----		
Balance at end of period	\$3,878	\$3,645
=====		
Servicing fees received	\$712	\$695
Balance of loans serviced at:		
Beginning of period	\$373,163	\$368,435
End of period	\$384,862	\$368,622
Weighted-average prepayment speed (CPR)	12.1%	12.3%
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 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.

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 core deposit intangibles as of September 30, 2006 and December 31, 2005.

(Dollar in Thousands)	December 31,		September 30,	
	2005	Additions	Reductions	2006
Core deposit intangibles	\$13,643	-	-	\$13,643
Accumulated amortization	(10,582)	-	(1,046)	(11,628)

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Core deposit intangibles, net	\$3,061	-	(1,046)	\$2,015
	=====			

10

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 (Dollar in thousands)
-----	-----
2006	\$1,395
2007	\$490
2008	\$523
2009	\$328
2010	\$260
Thereafter	\$65

The following table summarizes the Company's minimum pension liability intangible as of September 30, 2006 and December 31, 2005.

(Dollar in Thousands)	December 31, 2005	Additions	Reductions	September 30, 2006
	-----	-----	-----	-----
Minimum pension liability intangible	\$1,346	-	-	\$1,346
	=====			

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 September 30, 2006 and December 31, 2005.

(Dollar in Thousands)	December 31, 2005	Additions	Reductions	September 30, 2006
	-----	-----	-----	-----
Goodwill	\$15,519	-	-	\$15,519
	=====			

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.

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

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.

### 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.

11

### 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 nine months ended September 30, 2006 includes: (a) compensation cost for all share-based awards granted prior to, but not yet vested as of, January 1, 2006, 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, 2006, based on the grant-date fair value and related service periods estimated in accordance with the provisions of SFAS 123R. Under the provisions of the modified-prospective transition method, results for the three and nine month periods ended September 30, 2005 have not been restated. 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 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

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

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, (d) recognize compensation cost of all share-based awards based upon the grant-date fair value (including pre-2006 options).

The Company did not recognize any gain or loss resulting from the cumulative effect of a change in accounting principle upon adoption of SFAS 123R on January 1, 2006. Based on the stock-based compensation awards outstanding as of December 31, 2005, for which the requisite service was not fully rendered prior to January 1, 2006, and any subsequent option grants as of September 30, 2006, the Company expects to recognize total pre-tax compensation cost of approximately \$1,608,000 related to outstanding stock option grants, of which \$468,000 was recognized in the first nine months of 2006, in accordance with the accounting requirements of SFAS 123R. The after-tax effect of adopting SFAS 123R was a reduction of net income of \$326,000 and \$0, and a reduction in diluted earnings per share of \$0.02 and \$0, for the first nine months of 2006 and 2005, respectively. Future levels of compensation cost recognized related to stock-based compensation awards may be impacted by new awards and/or modifications, repurchases and cancellations of existing awards before and after the adoption SFAS 123R.

12

For the three and nine month periods ended September 30, 2005, had compensation cost for the Company's option plans been determined using the fair-value method of SFAS 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below (in thousands, except per share amounts):

(in thousands, except per share amounts)		Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006
		-----	-----
Net income	As reported	\$5,961	\$16,937
	Pro forma	\$5,865	\$16,642
Basic earnings per share	As reported	\$0.38	\$1.08
	Pro forma	\$0.37	\$1.06
Diluted earnings per share	As reported	\$0.37	\$1.04
	Pro forma	\$0.36	\$1.02
Stock-based employee compensation			
cost, net of related tax effects,			
included in net income	As reported	\$0	\$0
	Pro forma	\$96	\$295

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing.

In May 2001, the Company adopted the TriCo Bancshares 2001 Stock Option Plan (2001 Plan) covering officers, employees, directors of, and consultants to the Company. Under the 2001 Plan, the option price cannot be less than the fair market value of the Common Stock at the date of grant except in the case of substitute options. Options for the 2001 Plan expire on the tenth anniversary of the grant date. Vesting schedules under the 2001 Plan are determined individually for each grant.

In May 1995, the Company adopted the TriCo Bancshares 1995 Incentive Stock Option Plan (1995 Plan) covering key employees. Under the 1995 Plan, the option price cannot be less than the fair market value of the Common Stock at the date



## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

of grant. Options for the 1995 Plan expire on the tenth anniversary of the grant date. Vesting schedules under the 1995 Plan are determined individually for each grant.

As of September 30, 2006, options for the purchase of 416,430 and 0 common shares remained available for grant under the 2001 and 1995 Plans, respectively. Shares issued under the Company's option plans are "new issue" shares rather than treasury shares.

Stock option activity for the nine months ended September 30, 2006 and 2005 is summarized in the following tables:

	Number Of Shares	Option Price Per Share	Weighted Average Exercise Price	Weighted Average Fair Value of Grants
Outstanding at				
December 31, 2005	1,636,762	\$5.65 to \$20.58	\$11.44	
Options granted	87,000	\$24.46 to \$25.91	\$25.16	\$7.10
Options exercised	(190,187)	\$6.13 to \$17.40	\$8.65	
Options forfeited	(994)	\$5.90 to \$5.90	\$5.90	
	-----			
Outstanding at				
September 30, 2006	1,532,581	\$5.65 to \$25.91	\$12.57	
	=====			
Outstanding at				
December 31, 2004	1,661,547	\$2.62 to \$17.40	\$10.52	
Options granted	112,000	\$19.35 to \$20.58	\$19.87	\$4.30
Options exercised	(133,289)	\$2.62 to \$17.40	\$7.12	
Options forfeited	(496)	\$5.65 to \$5.65	\$5.65	
	-----			
Outstanding at				
September 30, 2005	1,639,762	\$5.37 to \$20.58	\$11.43	
	=====			

13

During the nine months ended September 30, 2006, the intrinsic value of options exercised and the fair value of options that vested were \$3,444,000 and \$468,000, respectively. The fair value of options granted during the nine months ended September 30, 2006 was based on the following average expectations: term of 7.1 years, volatility of 32.6%, annual rate of quarterly dividends of 1.91%, and a discount rate of 4.86%.

During the nine months ended September 30, 2005, the intrinsic value of options exercised and the fair value of options that vested were \$1,938,000 and \$492,000, respectively. The fair value of options granted during the nine months ended September 30, 2005 was based on the following expectations: term of 6.5 years, volatility of 21.2%, annual rate of quarterly dividends of 2.22%, and a discount rate of 3.90%.

The total intrinsic value of stock options exercised during the nine months ended September 30, 2006 was \$3,444,000 for which no compensation costs were previously recognized nor tax benefits recognized in equity upon issuance. Cash received from the exercise of stock options during the nine months ended September 30, 2006 totaled \$537,000. In addition, 40,915 shares of the Company's common stock with market value of \$1,109,000 were tendered by optionees and repurchased at market value by the Company, in lieu of cash, to exercise options

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

during the nine months ended September 30, 2006 as permitted by the Company's option plans.

The following table shows the number, weighted-average exercise price, and the weighted average remaining contractual life of options outstanding, and the number and weighted-average exercise price of options exercisable as of September 30, 2006 by range of exercise price:

Range of Exercise Price	Outstanding Options			Exerc
	Number	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (yrs.)	Number
\$4-\$6	448	\$5.65	3.50	448
\$8-\$10	696,040	\$8.25	4.24	696,040
\$10-\$12	40,000	\$11.72	6.19	24,000
\$12-\$14	373,000	\$12.72	6.66	295,000
\$16-\$18	224,093	\$17.38	7.41	147,485
\$18-\$20	65,000	\$19.35	8.40	26,000
\$20-\$22	47,000	\$20.58	8.65	44,000
\$24-\$26	87,000	\$25.16	9.77	-

The following table shows the number, weighted-average exercise price, intrinsic value, weighted average remaining contractual life, average remaining vesting period, and remaining compensation cost to be recognized over the remaining vesting period of options exercisable, options not yet exercisable and total options outstanding as of September 30, 2006:

(dollars in thousands except exercise price)	Currently Exercisable	Currently Not Exercisable	Total Outstanding
Number of options	1,232,973	299,608	1,532,581
Weighted average exercise price	\$11.14	\$18.43	\$12.57
Intrinsic value	\$16,777	\$1,892	18,669
Weighted average remaining contractual term (yrs.)	5.48	7.98	5.97

The 299,608 options that are not currently exercisable as of September 30, 2006 are expected to vest, on a weighted-average basis, over the next 1.68 years, and the Company is expected to recognize \$1,140,000 of pre-tax compensation costs related to these options as they vest.

### 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.

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

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:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September	
	2006	2005	2006	2005
Net income	\$6,820	\$5,961	\$19,912	\$16,93
Average number of common shares outstanding	15,856	15,688	15,797	15,70
Effect of dilutive stock options	510	642	582	62
Average number of common shares outstanding used to calculate diluted earnings per share	16,366	16,330	16,379	16,32

There were 42,000 and 0 options excluded from the computation of diluted earnings per share for the nine month periods ended September 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 September 30,		Nine Months Ended
	2006	2005	2006
Unrealized holding gains (losses) on available-for-sale securities	\$3,490	(\$1,846)	\$377
Tax effect	(1,468)	776	(159)
Unrealized holding gains (losses) on available-for-sale securities, net of tax	\$2,022	(\$1,070)	\$218

The components of accumulated other comprehensive loss, included in

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

shareholders' equity, are as follows:

	September 30, 2006	December 2005
----- (in thousands) -----		
Net unrealized losses on available-for-sale securities	(\$4,373)	(\$4,75
Tax effect	1,838	1,99
	-----	
Unrealized holding losses on available-for-sale securities, net of tax	(\$2,535)	(2,75
	-----	
Minimum pension liability	(1,851)	(1,85
Tax effect	779	77
	-----	
Minimum pension liability, net of tax	(1,072)	(1,0
	-----	
Accumulated other comprehensive loss	(\$3,607)	(\$3,82
	=====	

15

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		Nine Months	
	Ended September 30, 2006	2005	Ended September 2006	2005
	----	----	----	----
Net pension cost included the following components:				
Service cost-benefits earned during the period	\$139	\$104	\$417	\$313
Interest cost on projected benefit obligation	132	134	396	402
Amortization of net obligation at transition	1	56	2	168
Amortization of prior service cost	50	24	150	72
Recognized net actuarial loss	34	-	102	2
	-----			
Net periodic pension cost	\$356	\$318	\$1,067	\$957
	=====			

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

During the nine months ended September 30, 2006 and 2005, the Company contributed and paid out as benefits \$409,000 and \$393,000, respectively, to participants under the plans. For the year ending December 31, 2006, the Company expects to contribute and pay out as benefits \$530,000 to participants under the plans.

### Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123R), which replaces SFAS No. 123, Accounting for Stock-Based Compensation, (SFAS 123) and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values beginning with the first interim reporting period of the Company's fiscal year beginning after June 15, 2005, with early adoption encouraged. The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. The Company adopted SFAS 123R on January 1, 2006 using a modified version of prospective application ("modified prospective application"). Under modified prospective application, as it is applicable to the Company, SFAS 123R applies to new grants and to grants modified, repurchased, or cancelled after January 1, 2006. Additionally, compensation cost for the portion of grants for which the requisite service has not been rendered (generally referring to non-vested grants) that are outstanding as of January 1, 2006 must be recognized as the remaining requisite service is rendered during the period of and/or the periods after the adoption of SFAS 123R. The attribution of compensation cost for those earlier grants will be based on the same method and on the same grant-date fair values previously determined for the pro forma disclosures required for companies that did not adopt the fair value accounting method for stock-based employee compensation.

The Company did not recognize any gain or loss resulting from the cumulative effect of a change in accounting principle upon adoption of SFAS 123R on January 1, 2006. Based on the stock-based compensation awards outstanding as of December 31, 2005, for which the requisite service was not fully rendered prior to January 1, 2006, and any subsequent option grants as of September 30, 2006, the Company expects to recognize total pre-tax compensation cost of approximately \$1,608,000 related to outstanding stock option grants, of which \$468,000 was recognized in the first nine months of 2006, in accordance with the accounting requirements of SFAS 123R. The after-tax effect of adopting SFAS 123R was a reduction of net income of \$326,000 and \$0, and a reduction in diluted earnings per share of \$0.02 and \$0, for the first nine months of 2006 and 2005, respectively. Future levels of compensation cost recognized related to stock-based compensation awards may be impacted by new awards and/or modifications, repurchases and cancellations of existing awards before and after the adoption SFAS 123R.

In March 2006, the FASB issued FASB Statement of Financial Accounting Standards No. 156, Accounting for Servicing of Financial Assets, (SFAS 156) an amendment of FASB Statement No. 140. SFAS 156 requires all separately-recognized servicing assets and liabilities to be initially measured at fair value, and permits companies to elect, on a class-by-class basis, to account for servicing assets and liabilities on either a lower of cost or market value basis or a fair value measurement basis.

The Company elected to early adopt SFAS 156 as of January 1, 2006 and to measure residential mortgage servicing rights (MSRs) at fair value. At December 31,

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

2005, MSRs were accounted for at the lower of amortized cost or market value basis. As a result of adopting SFAS 156, there was no adjustment to opening retained earnings as of January 1, 2006, representing the effect of remeasuring all MSRs that existed at December 31, 2005 from a lower of amortized cost or market basis to a fair value basis, as this amount was immaterial.

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 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 will be required to recognize the funded status of its defined benefit postretirement benefit plans in its financial statements for the year ended December 31, 2006. 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 financial statements beginning with the year ended after December 31, 2008. SFAS 158 is not expected to have a significant impact on the Company's 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 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 is effective for the Company on January 1, 2007 and is not expected to have a significant impact on the Company's financial statements.

In September 2006, the U.S. Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, Considering the Effects of a Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements (SAB 108). SAB 108 addresses how the effects of prior year uncorrected errors must be considered in quantifying misstatements in the current year financial statements. The effects of prior year uncorrected errors

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

include the potential accumulation of improper amounts that may result in a material misstatement on the balance sheet or the reversal of prior period errors in the current period that result in a material misstatement of the current period income statement amounts. Adjustments to current or prior period financial statements would be required in the event that after application of various approaches for assessing materiality of a misstatement in current period financial statements and consideration of all relevant quantitative and qualitative factors, a misstatement is determined to be material. SAB 108 will be applicable to all financial statements issued by the Company after November 15, 2006.

### Reclassifications

Certain amounts previously reported in the 2005 financial statements have been reclassified to conform to the 2006 presentation. These reclassifications did not affect previously reported net income or total shareholders' equity.

17

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

	Three months ended September 30,		Nine months September
	2006	2005	2006
Net Interest Income (FTE)	\$22,077	\$20,086	\$64,903
Provision for loan losses	235	947	1,289
Noninterest income	6,649	6,632	19,628
Noninterest expense	17,026	15,680	49,724
Provision for income taxes (FTE)	4,645	4,130	13,606
Net income	\$6,820	\$5,961	\$19,912
Earnings per share:			
Basic	\$0.43	\$0.38	\$1.26
Diluted	\$0.42	\$0.37	\$1.22
Per share:			
Dividends paid	\$0.12	\$0.11	\$0.36
Book value at period end	\$10.41	\$9.30	
Tangible book value at period end	\$9.22	\$8.04	
Average common shares outstanding	15,856	15,688	15,797
Average diluted shares outstanding	16,366	16,330	16,379
Shares outstanding at period end	15,857	15,728	
At period end:			
Loans, net	\$1,490,166	\$1,312,294	
Total assets	1,904,004	1,786,856	
Total deposits	1,525,174	1,438,299	
Other borrowings	35,848	31,711	
Junior subordinated debt	41,238	41,238	
Shareholders' equity	\$165,141	\$146,322	
Financial Ratios:			
During the period (annualized):			

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Return on assets	1.45%	1.37%	1.43%
Return on equity	16.64%	16.26%	16.75%
Net interest margin(1)	5.19%	5.10%	5.17%
Net loan charge-offs to average loans	0.04%	0.01%	0.05%
Efficiency ratio)	59.27%	58.69%	58.82%
At Period End:			
Equity to assets	8.67%	8.19%	
Total capital to risk assets	11.08%	11.19%	
Allowance for losses to loans(2)	1.25%	1.32%	

(1) Fully taxable equivalent (FTE)

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

18

### 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.

#### 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 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 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 Consolidated Financial Statements of the Company and the Notes thereto in this report.

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

Three months ended	Nine months ended
September 30,	September 30,



Edgar Filing: TRICO BANCSHARES / - Form 10-Q

	2006	2005	2006	2005
Net Interest Income (FTE)	\$22,077	\$20,086	\$64,903	\$58,203
Provision for loan losses	235	947	1,289	1,608
Noninterest income	6,649	6,632	19,628	18,269
Noninterest expense	17,026	15,680	49,724	46,310
Provision for income taxes (FTE)	4,645	4,130	13,606	11,617
Net income	\$6,820	\$5,961	\$19,912	\$16,937

The Company had quarterly earnings of \$6,820,000, or \$0.42 per diluted share, for the three months ended September 30, 2006. These results represent a 13.5% increase from the \$0.37 earnings per diluted share reported for the three months ended September 30, 2005 on earnings of \$5,961,000. The improvement in results from the year-ago quarter was due to a \$1,991,000 (9.9%) increase in fully tax-equivalent net interest income to \$22,077,000, and a \$712,000 (75.2%) decrease in provision for loan losses. These contributing factors were partially offset by a \$1,346,000 (8.6%) increase in noninterest expense to \$17,026,000 for the quarter ended September 30, 2006.

The Company reported earnings of \$19,912,000, or \$1.22 per diluted share, for the nine months ended September 30, 2006. These results represent a 17.3% increase from the \$1.04 earnings per diluted share reported for the nine months ended September 30, 2005 on earnings of \$16,937,000. The improvement in results from the year-ago period was primarily due to a \$6,700,000 (11.5%) increase in fully tax-equivalent net interest income to \$64,903,000, a \$319,000 (19.8%) decrease in provision for loan losses, and a \$1,359,000 (7.4%) increase in noninterest income to \$19,628,000. These contributing factors were partially offset by a \$3,414,000 (7.4%) increase in noninterest expense to \$49,724,000 for the nine months ended September 30, 2006.

19

Net Interest Income

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

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Interest income	\$31,421	\$25,334	\$88,778	\$71,880
Interest expense	(9,576)	(5,519)	(24,624)	(14,429)
FTE adjustment	232	271	749	752
Net interest income (FTE)	\$22,077	\$20,086	\$64,903	\$58,203
Average interest-earning assets	\$1,701,166	\$1,574,392	\$1,675,027	\$1,517,013
Net interest margin (FTE)	5.19%	5.10%	5.17%	5.12%

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.

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Net interest income (FTE) during the third quarter of 2006 increased \$1,991,000 (9.9%) from the same period in 2005 to \$22,077,000. The increase in net interest income (FTE) was due to a \$126,774,000 (8.1%) increase in average balances of interest-earning assets to \$1,701,166,000 and a 0.09% increase in net interest margin (FTE) to 5.19%.

Net interest income (FTE) during the first nine months of 2006 increased \$6,700,000 (11.5%) from the same period in 2005 to \$64,903,000. The increase in net interest income (FTE) was due to a \$158,014,000 (10.4%) increase in average balances of interest-earning assets to \$1,675,027,000 and a 0.05% increase in net interest margin (FTE) to 5.17%.

### Interest and Fee Income

Interest and fee income (FTE) for the third quarter of 2006 increased \$6,048,000 (23.6%) from the third quarter of 2005. The increase was due to a \$126,774,000 (8.1%) increase in average interest-earning assets to \$1,701,166,000 and a 0.93% increase in the yield on those average interest-earning assets to 7.44%. The growth in interest-earning assets was due to a \$192,574,000 (15.0%) increase in average loan balances to \$1,477,551,000 that was partially offset by a decrease of \$65,932,000 (22.8%) in average balances of investments to \$223,031,000. The increase in the yield on average interest-earning assets was mainly due to a 0.89% increase in yield on loans to 7.82% 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 2.00% increase in the prime rate of lending from June 30, 2005 to September 30, 2006, tempered by long-term lending rates having generally held steady or fallen over this period, and new prime based loans such as home equity lines of credit being offered at spreads to the prime rate that are lower than they were in the year-ago period.

Interest and fee income (FTE) for the nine months ended September 30, 2006 increased \$16,895,000 (23.3%) from the same period of 2005. The increase was the net effect of a \$158,014,000 (10.4%) increase in average interest-earning assets to \$1,675,027,000 and a 0.75% increase in the yield on those average interest-earning assets to 7.13%. The growth in interest-earning assets was due to a \$209,490,000 (17.2%) increase in average loan balances to 1,430,204,000 that was partially offset by a decrease of \$51,867,000 (17.6%) in average balances of investments to \$243,590,000. The increase in the yield on average interest-earning assets was mainly due to a 0.69% increase in yield on loans to 7.51% 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 3.00% increase in the prime rate of lending from December 31, 2004 to September 30, 2006, tempered by long-term lending rates having generally held steady or fallen over this period, and new prime based loans such as home equity lines of credit being offered at spreads to the prime rate that are lower than they were in the year-ago period.

20

### Interest Expense

Interest expense increased \$4,057,000 (73.5%) to \$9,576,000 in the third quarter of 2006 compared to the year-ago quarter. The average balance of interest-bearing liabilities increased \$104,184,000 (8.4%) to \$1,337,596,000 in the third quarter compared to the year-ago quarter. The increase in the average balance of interest-bearing liabilities was concentrated in time deposits (up \$163,878,000 or 43.2%), and Federal funds purchased (up \$30,830,000 or 40.4%). In addition, the average balance of savings deposits decreased \$82,858,000 (18.0%) from the year-ago quarter. The average rate paid on interest-bearing

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

liabilities in the quarter ended September 30, 2006 increased 1.07% to 2.86% 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 and Federal funds purchased.

Interest expense increased \$10,195,000 (70.6%) to \$24,624,000 for the nine months ended September 30, 2006 compared to \$14,429,000 in the year-ago period. The average balance of interest-bearing liabilities increased \$125,369,000 (10.5%) to \$1,315,450,000 for the nine months ended September 30, 2006 compared to the year-ago period. The increase in interest-bearing liabilities was concentrated in time deposits (up \$145,981,000 or 40.5%), and Federal funds purchased (up \$43,593,000 or 94.8%). In addition, for the nine months ended September 30, 2006, the average balance of savings deposits decreased \$67,297,000 (14.3%) from the year-ago period. The average rate paid on interest-bearing liabilities in the nine month period ended September 30, 2006 increased 0.88% to 2.50% compared to the year-ago period as a result of increases in market interest rates and changes in the mix of interest-bearing liabilities towards higher paying time deposits and Federal funds purchased.

### Net Interest Margin (FTE)

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

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Yield on interest-earning assets	7.44%	6.51%	7.13%	6.38%
Rate paid on interest-bearing Liabilities	2.86%	1.79%	2.50%	1.62%
Net interest spread	4.58%	4.72%	4.63%	4.76%
Impact of all other net noninterest-bearing funds	0.61%	0.38%	0.54%	0.36%
Net interest margin	5.19%	5.10%	5.17%	5.12%

Net interest margin for the three months ended September 30, 2006 increased 0.09% compared to the three months ended September 30, 2005. This increase in net interest margin was mainly due to an 0.23% increase in the impact of net noninterest-bearing funds to 0.61% from 0.38% in the year-ago three month period that was partially offset by a 0.14% decrease in net interest spread as the average yield on interest-earning assets increased 0.93% while the average rate paid on interest-bearing liabilities increased 1.07% from the year-ago three month period.

Net interest margin for the nine months ended September 30, 2006 increased 0.05% compared to the nine months ended September 30, 2005. This increase in net interest margin was mainly due to a 0.18% increase in the impact of net noninterest-bearing funds to 0.54% from 0.36% in the year-ago nine month period. The increase in the impact of net noninterest-bearing funds was partially offset by a 0.13% decrease in net interest spread as the average yield on

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

interest-earning assets increased 0.75% while the average rate paid on interest-bearing liabilities increased 0.88% from the year-ago nine month period.

21

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					
	September 30, 2006			September 30, 2005		
	Average Balance	Interest Income/Expense	Rates Earned/Paid	Average Balance	Interest Income/Expense	Rates Earned/Paid
<b>Assets:</b>						
Loans	\$1,477,551	\$28,901	7.82%	\$1,284,977	\$22,254	6.8%
Investment securities - taxable	188,021	2,082	4.43%	252,547	2,608	4.1%
Investment securities - nontaxable	35,010	663	7.58%	36,416	739	8.0%
Federal funds sold	584	7	4.79%	452	4	3.5%
<b>Total interest-earning assets</b>	<b>1,701,166</b>	<b>31,653</b>	<b>7.44%</b>	<b>1,574,392</b>	<b>25,605</b>	<b>6.4%</b>
Other assets	178,863	-----		169,623	-----	
<b>Total assets</b>	<b>\$1,880,029</b>			<b>\$1,744,015</b>		
<b>Liabilities and shareholders' equity:</b>						
Interest-bearing demand deposits	\$231,919	118	0.20%	\$244,821	124	0.2%
Savings deposits	377,346	906	0.96%	460,204	861	0.9%
Time deposits	543,564	5,820	4.28%	379,686	2,839	2.3%
Federal funds purchased	107,202	1,448	5.40%	76,372	696	3.5%
Other borrowings	36,327	442	4.87%	31,091	351	4.5%
Junior subordinated debt	41,238	842	8.17%	41,238	648	6.3%
<b>Total interest-bearing liabilities</b>	<b>1,337,596</b>	<b>9,576</b>	<b>2.86%</b>	<b>1,233,412</b>	<b>5,519</b>	<b>1.8%</b>
Noninterest-bearing deposits	348,801	-----		322,920	-----	
Other liabilities	29,713			27,599		
Shareholders' equity	163,919			146,660		
<b>Total liabilities &amp; shareholders' equity</b>	<b>\$1,880,029</b>			<b>\$1,744,015</b>		
Net interest spread(1)			4.58%			4.1%
Net interest income and interest margin(2)		\$22,077	5.19%		\$20,086	5.0%

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

- (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.

22

	For the nine months ended					
	September 30, 2006			September 30, 2005		
	Average Balance	Interest Income/Expense	Rates Earned/Paid	Average Balance	Interest Income/Expense	Rates Earned/Paid
<b>Assets:</b>						
Loans	\$1,430,204	\$80,525	7.51%	\$1,220,714	\$62,482	6.1%
Investment securities - taxable	208,667	6,870	4.39%	261,542	8,083	4.3%
Investment securities - nontaxable	34,923	2,087	7.97%	33,915	2,049	8.1%
Federal funds sold	1,233	45	4.87%	842	18	2.1%
<b>Total interest-earning assets</b>	<b>1,751,027</b>	<b>89,527</b>	<b>7.13%</b>	<b>1,517,013</b>	<b>72,632</b>	<b>6.1%</b>
Other assets	176,118	-----		167,481	-----	
<b>Total assets</b>	<b>\$1,851,478</b>			<b>\$1,684,494</b>		
<b>Liabilities and shareholders' equity:</b>						
Interest-bearing demand deposits	\$240,385	362	0.20%	\$241,856	366	0.2%
Savings deposits	404,099	2,562	0.85%	471,396	2,600	0.8%
Time deposits	506,593	14,783	3.89%	360,612	7,560	2.1%
Federal funds purchased	89,592	3,367	5.01%	45,999	1,117	3.1%
Other borrowings	33,543	1,186	4.71%	28,980	1,007	4.2%
Junior subordinated debt	41,238	2,364	7.64%	41,238	1,779	5.1%
<b>Total interest-bearing liabilities</b>	<b>1,315,450</b>	<b>24,624</b>	<b>2.50%</b>	<b>1,190,081</b>	<b>14,429</b>	<b>1.9%</b>
Noninterest-bearing deposits	348,278	-----		323,485	-----	
Other liabilities	28,867			27,205		
Shareholders' equity	158,550			143,723		
<b>Total liabilities and shareholders' equity</b>	<b>\$1,851,145</b>			<b>\$1,684,494</b>		
Net interest spread(1)			4.63%			4.6%
Net interest income and interest margin(2)		\$64,903	5.17%		\$58,203	5.1%

- 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

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

interest income and expense, divided by the average balance of interest-earning assets.

23

### 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 September 30, 2006 compared with three month ended September 30, 2005			
	Volume	Rate	Total
-----			
Increase (decrease) in interest income:			
Loans	\$3,336	\$3,311	\$6,647
Investment securities	(695)	93	(602)
Federal funds sold	1	2	3
-----			
Total interest-earning assets	2,642	3,406	6,048
-----			
Increase (decrease) in interest expense:			
Interest-bearing demand deposits	(6)	-	(6)
Savings deposits	(155)	200	45
Time deposits	1,225	1,756	2,981
Federal funds purchased	281	471	752
Other borrowings	59	32	91
Junior subordinated debt	-	194	194
-----			
Total interest-bearing liabilities	1,404	2,653	4,057
-----			
Increase (decrease) in Net Interest Income	\$1,238	\$753	\$1,991
=====			

Nine months ended September 30, 2006 compared with nine months ended September 30, 2005			
	Volume	Rate	Total
-----			
Increase (decrease) in interest income:			
Loans	\$10,715	\$7,328	\$18,043
Investment securities	(1,573)	398	(1,175)
Federal funds sold	8	19	27
-----			
Total interest-earning assets	9,150	7,745	16,895
-----			
Increase (decrease) in interest expense:			
Interest-bearing demand deposits	(2)	(2)	(4)
Savings deposits	(373)	335	(38)
Time deposits	3,066	4,157	7,223
Federal funds purchased	1,059	1,191	2,250

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Other borrowings	158	21	179
Junior subordinated debt	-	585	585
<hr/>			
Total interest-bearing liabilities	3,908	6,287	10,195
<hr/>			
Increase (decrease) in Net Interest Income	\$5,242	\$1,458	\$6,700
<hr/>			

24

Provision for Loan Losses

The Company provided \$235,000 for loan losses in the third quarter of 2006 versus \$947,000 in the third quarter of 2005. During the third quarter of 2006, the Company recorded \$135,000 of net loan charge offs versus \$43,000 of net loan charge-offs in the year earlier quarter.

The Company provided \$1,289,000 for loan losses during the nine months ended September 30, 2006 versus \$1,608,000 during the nine months ended September 30, 2005. During the nine months ended September 30, 2006, the Company recorded \$522,000 of net loan charge-offs versus \$337,000 of net loan charge-offs in the year earlier nine-month period.

Noninterest Income

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

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Service charges on deposit accounts	\$3,703	\$3,653	\$10,883	\$10,000
ATM fees and interchange	927	822	2,641	2,300
Other service fees	544	504	1,601	1,500
Amortization of mortgage servicing rights	-	(184)	-	(400)
Change in value of mortgage servicing rights	(118)	-	(256)	-
Gain on sale of loans	264	474	875	1,100
Commissions on sale of nondeposit investment products	447	535	1,529	1,700
Increase in cash value of life insurance	420	420	1,223	1,000
Gain on sale of investments	-	-	12	-
Other noninterest income	462	408	1,120	900
<hr/>				
Total noninterest income	\$6,649	\$6,632	\$19,628	\$18,200
<hr/>				

Noninterest income for the third quarter of 2006 increased \$17,000 (0.3%) from the year-ago quarter. The increase in noninterest income from the year-ago quarter was mainly due to a \$50,000 (1.4%) increase in service charges on deposit accounts to \$3,703,000, a \$105,000 (12.8%) increase in ATM fees and interchange to \$927,000, and a \$66,000 decrease in amortization (or change in value) of mortgage servicing rights, that were partially offset by a \$88,000 (16.4%) decrease in commissions on sale of nondeposit investment products to \$447,000, and a \$210,000 (44.3%) decrease in gain on sale of loans to \$264,000. 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

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

customer count and expansion of ATM network as part of new branch openings. The decrease in amortization (or change in value) of mortgage servicing rights was due primarily to a slowdown in residential mortgage refinance activity which generally increases the value of mortgage servicing rights. The shift from amortization of mortgage servicing rights to change in value of mortgage servicing rights is due to the adoption of market value accounting for mortgage servicing rights effective January 1, 2006 and the related change in market value from July 1, 2006 to September 30, 2006. The decrease in gain on sale of loans is due to a slowdown in residential mortgage refinance activity.

Noninterest income for the nine months ended September 30, 2006 increased \$1,359,000 (7.4%) to \$19,628,000 from the same period in 2005. The increase in noninterest income from the year-ago nine months ended September 30, 2005 was mainly due to a \$853,000 (8.5%) increase in service charges on deposit accounts to \$10,883,000, a \$326,000 (14.1%) increase in ATM fees and interchange to \$2,641,000, a \$183,000 (17.6%) improvement in increase in cash value of life insurance to \$1,223,000, and a \$234,000 decrease in amortization (or change in value) of mortgage servicing rights, that were partially offset by a \$198,000 (11.5%) decrease in commissions on sale of nondeposit investment products to \$1,529,000, and a \$320,000 (26.8%) decrease in gain on sale of loans to \$875,000. The increase in service charges on deposit accounts was primarily due to the introduction of a business overdraft privilege product in March 2005 and 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. The decrease in amortization (or change in value) of mortgage servicing rights was due primarily to a slowdown in residential mortgage refinance activity which generally increases the value of mortgage servicing rights. The shift from amortization of mortgage servicing rights to change in value of mortgage servicing rights is due to the adoption of market value accounting for mortgage servicing rights effective January 1, 2006 and the related change in market value from January 1, 2006 to September 30, 2006. The decrease in gain on sale of loans is due to a slowdown in residential mortgage refinance activity.

25

### Noninterest Expense

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

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Salaries & benefits	\$9,276	\$8,584	\$27,050	\$25,361
Occupancy	1,170	1,034	3,298	3,019
Equipment	1,018	1,023	3,187	3,092
Advertising and marketing	655	579	1,628	1,283
ATM network charges	475	430	1,375	1,209
Data processing & software	453	419	1,259	1,203
Telecommunications	380	344	1,165	1,137
Professional fees	375	287	1,265	968
Intangible amortization	350	346	1,046	1,035
Courier service	312	292	925	860
Postage	260	263	753	734
Operational losses	89	25	218	97
Assessments	83	80	243	233
Other	2,130	1,974	6,312	6,079



## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

	\$17,026	\$15,680	\$49,724	\$46,310
Total				
Average full time equivalent staff	630	592	619	577
Noninterest expense to revenue (FTE)	59.27%	58.69%	59.82%	60.56%

Noninterest expense for the third quarter of 2006 increased \$1,346,000 (8.6%) compared to the third quarter of 2005. Salaries and benefits expense increased \$692,000 (8.1%) to \$9,276,000. The increase in salaries and benefits expense was mainly due to annual salary increases, and new employees at the Company's recently opened branches in Roseville-Pleasant Grove (November 2005), Yuba City-Marketplace (January 2006), Folsom-Empire Ranch (March 2006), Natomas-Arena Blvd (April 2006), Antelope (May 2006), Anderson (June 2006), and Elk Grove (August 2006). Other categories of noninterest expense including occupancy and ATM network charges also increased, in part, due to these newly opened branches. Advertising and marketing expense increased \$76,000 (13.1%) to \$655,000. Professional fees increased \$88,000 (30.7%) to \$375,000 due to increased audit fees.

Noninterest expense for the nine months ended September 30, 2006 increased \$3,414,000 (7.4%) compared to the nine months ended September 30, 2005. Salaries and benefits expense increased \$1,689,000 (6.7%) to \$27,050,000. The increase in salaries and benefits expense was mainly due to annual salary increases, and new employees at the Company's recently opened branches in Lincoln (February 2005), Folsom-East Bidwell (March 2005), Roseville-Pleasant Grove (November 2005), Yuba City-Marketplace (January 2006), Folsom-Empire Ranch (March 2006), Natomas-Arena Blvd (April 2006), Antelope (May 2006), Anderson (June 2006), and Elk Grove (August 2006). Other categories of noninterest expense including occupancy and ATM network charges also increased, in part, due to these newly opened branches. Advertising and marketing expense increased \$345,000 (26.9%) to \$1,628,000. Professional fees increase \$297,000 (30.7%) to \$1,265,000 due to increased audit fees and increased legal fees related to loan collection efforts.

### Provision for Income Tax

The effective tax rate for the three months ended September 30, 2006 was 39.3% and reflects no change from 39.3% for the three months ended September 30, 2005. The effective tax rate for the nine months ended September 30, 2006 was 39.2% and reflects an increase from 39.1% for the nine months ended September 30, 2005. 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.

### 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):

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

	At September 30, 2006			At December 31, 2005		
	Gross	Guaranteed	Net	Gross	Guaranteed	Net
Classified loans	\$13,671	\$6,654	\$7,017	\$13,086	\$7,110	\$5,976
Other classified assets	-	-	-	-	-	-
<b>Total classified assets</b>	<b>\$13,671</b>	<b>\$6,654</b>	<b>\$7,017</b>	<b>\$13,086</b>	<b>\$7,110</b>	<b>\$5,976</b>
Allowance for loan losses						
/classified loans			242.2%			271.5%

Classified assets, net of guarantees of the U.S. Government, including its agencies and its government-sponsored agencies at September 30, 2006, increased \$1,041,000 (17.4%) to \$7,017,000 from \$5,976,000 at December 31, 2005.

### 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 nine months, ended September 30, 2006, if all such loans had been current in accordance with their original terms, totaled \$895,000. Interest income actually recognized on these loans during the nine months ended September 30, 2006 was \$ 598,000.

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.

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

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 \$1,562,000 (52.8%) to \$4,523,000 during the first nine months of 2006. Nonperforming assets net of guarantees represent 0.24% 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.

(dollars in thousands):

	At September 30, 2006			At December 31, 2005		
	Gross	Guaranteed	Net	Gross	Guaranteed	Net
Performing nonaccrual loans	\$10,571	\$6,511	\$4,060	\$9,315	\$6,933	\$2,382
Nonperforming, nonaccrual loans	463	-	463	579	-	579
Total nonaccrual loans	11,034	6,511	4,523	9,894	6,933	2,961
Loans 90 days past due and still accruing	-	-	-	-	-	-
Total nonperforming loans	11,034	6,511	4,523	9,894	6,933	2,961
Other real estate owned	-	-	-	-	-	-
Total nonperforming assets	\$11,034	\$6,511	\$4,523	\$9,894	\$6,933	\$2,961
Nonperforming loans to total loans			0.30%			0.30%
Nonperforming assets to total assets			0.24%			0.24%
Allowance for loan losses to nonperforming loans			376%			376%

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 September 30, 2006, the Company had repurchased 374,371 shares under this plan as adjusted for the 2-for-1 stock split paid on April 30, 2004, which left 125,629 shares available for repurchase under the plan.

The Company's primary capital resource is shareholders' equity, which was \$165,141,000 at September 30, 2006. This amount represents an increase of \$15,648,000 from December 31, 2005, the net result of comprehensive income for the period of \$20,130,000, the issuance of common shares via the exercise of stock options of \$1,646,000, the tax effects of stock option exercises of \$205,000, and the effect of stock option vesting of \$468,000, partially offset by the retirement of common stock with value of \$1,109,000 tendered by

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

employees, in lieu of cash, to exercise stock options, and dividends paid of \$5,692,000. The Company's ratio of equity to total assets was 8.67%, 8.19%, and 8.12% as of September 30, 2006, September 30, 2005, and December 31, 2005, respectively.

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

	At September 30,		At	Minimum Regulatory Requirement
	----- 2006	2005	December 31, 2005	
Tier I Capital	10.07%	10.13%	9.76%	4.00%
Total Capital	11.08%	11.19%	10.79%	8.00%
Leverage ratio	10.13%	9.83%	9.72%	4.00%

28

### 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 September 30, 2006 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 \$622,446,000 and \$626,490,000 at September 30, 2006 and December 31, 2005, respectively, and represent 41.3% of the total loans outstanding at September 30, 2006 versus 45.2% at December 31, 2005. Commitments related to the Bank's deposit overdraft privilege product totaled \$36,560,000 and \$35,002,000 at September 30, 2006 and December 31, 2005, respectively.

### Certain Contractual Obligations

The following chart summarizes certain contractual obligations of the Company as of December 31, 2005:

(dollars in thousands)	Total	Less than one year	1-3 years	3-5 years
	-----			
Federal funds purchased	\$96,800	\$96,800	-	-
FHLB loan, fixed rate of 5.41% payable on April 7, 2008, callable in its entirety by FHLB on a quarterly basis beginning April 7, 2003	20,000	-	20,000	-
FHLB loan, fixed rate of 5.35% payable on December 9, 2008	1,500	-	1,500	-
FHLB loan, fixed rate of 5.77% payable on February 23, 2009	1,000	-	-	1,000
Capital lease obligation on premises, effective rate of 13% payable monthly in varying amounts through December 1, 2009	293	-	-	293
Other collateralized borrowings, fixed rate of 1.44% payable on January 3, 2006	8,597	8,597	-	-
Junior subordinated debt, adjustable rate of three-month LIBOR plus 3.05%,				

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

callable in whole or in part by the Company on a quarterly basis beginning October 7, 2008, matures October 7, 2033	20,619	-	-	-
Junior subordinated debt, adjustable rate of three-month LIBOR plus 2.55%, callable in whole or in part by the Company on a quarterly basis beginning July 23, 2009, matures July 23, 2034	20,619	-	-	-
Operating lease obligations	7,095	1,522	2,600	1,888
Deferred compensation(1)	1,464	264	481	454
Supplemental retirement plans(1)	4,528	477	938	926
Employment agreements	119	119	-	-
	-----			
Total contractual obligations	\$182,634	\$107,779	\$25,519	\$4,561
	=====			

(1) These amounts represent known certain payments to participants under the Company's deferred compensation and supplemental retirement plans. See "Retirement Plans" at Part I, Item 1 of this report for additional information related to the Company's deferred compensation and supplemental retirement plan liabilities.

29

### 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.

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

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 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 September 30, 2006, 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 September 30, 2006 and 2005, the Company had no derivative financial instruments.

30

### Liquidity

The Company's principal source of asset liquidity is federal funds sold and marketable investment securities available for sale. At September 30, 2006, federal funds sold and investment securities available for sale totaled \$211,273,000, representing a decrease of \$51,382,000 (19.6%) from December 31, 2005, and a decrease of \$60,079,000 (22.1%) from September 30, 2005. In addition, the Company generates additional liquidity from its operating activities. The Company's profitability during the first nine months of 2006 generated cash flows from operations of \$25,219,000 compared to \$22,562,000 during the first nine months of 2005. 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 \$40,208,000 and \$10,780,000 respectively, during the nine months ended September 30, 2006 compared to \$45,147,000 and \$0, respectively, for the nine months ended September 30, 2005. During the nine months ended September 30, 2006, the Company invested \$896,000 and \$122,646,000 in securities and net loan growth, respectively, compared to \$35,013,000 and \$155,460,000 in securities and net loan growth, respectively, during the first nine months of 2005. These changes in investment and loan balances contributed to net cash used for investing activities of \$75,870,000 during the nine months ended September 30, 2006, compared to net cash used for investing activities of \$149,890,000 during the nine months ended September 30, 2005. Financing activities provided net cash of

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

\$37,380,000 during the nine months ended September 30, 2006, compared to net cash provided by financing activities of \$142,922,000 during the nine months ended September 30, 2005. Increases in deposit balances accounted for \$28,377,000 and \$89,466,000 of financing sources of funds, respectively, during the nine months ended September 30, 2006 and 2005, respectively. Federal funds borrowed increased \$9,700,000 and \$56,800,000 during the first nine months of 2006 and 2005, respectively. Short-term other borrowings increased \$4,502,000 and \$3,597,000 during the nine months ended September 30, 2006 and 2005, respectively. Dividends paid used \$5,692,000 and \$5,189,000 of cash during the nine months ended September 30, 2006 and September 30, 2005, respectively. Repurchase of common stock used \$2,663,000 of cash during the nine months ended September 30, 2005. 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 September 30, 2006 ("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 nine months of 2006 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

31

## 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, 2005.

### 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 third quarter of 2006 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:

## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

Period	(a) Total number of Shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plans or programs	(d) Maximum number of shares that may be purchased under plans or programs
July 1-31, 2006	-	-	-	125,629
Aug. 1-31, 2006	-	-	-	125,629
Sep. 1-30, 2006	-	-	-	125,629
<b>Total</b>	-	-	-	125,629

32

### 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.
- 10.2\* Form of Change of Control Agreement dated August 25, 2005, between TriCo 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 Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.
- 10.5\* Amended Employment Agreement between TriCo and Richard Smith dated as of August 23, 2005 filed as Exhibit 10.8 to TriCo's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.
- 10.6\* Tri Counties Bank Executive Deferred Compensation Plan restated



## Edgar Filing: TRICO BANCSHARES / - Form 10-Q

April 1, 1992 and January 1, 2005 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 effective as of 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.
- 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.

33

- 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, Andrew Mastorakis, 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 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, Andrew Mastorakis, 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 Verischagin,

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

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 Craig Carney, W.R. Hagstrom, Andrew Mastorakis, Rick Miller, Richard O'Sullivan, Thomas Reddish, Ray Rios, 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.

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: November 3, 2006

/s/ Thomas J. Reddish

-----  
Thomas J. Reddish  
Executive Vice President and  
Chief Financial Officer

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

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

- 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 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.

Date: November 3, 2006

/s/ Richard P. Smith

-----  
Richard P. Smith  
President and Chief Executive Officer

Exhibit 31.2

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

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

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 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.

Date: November 3, 2006

/s/ Thomas J. Reddish

-----  
Thomas J. Reddish  
Executive Vice President and Chief  
Financial Officer

Edgar Filing: TRICO BANCSHARES / - Form 10-Q

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 September 30, 2006 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 September 30, 2006 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

-----  
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.