

MIDSOUTH BANCORP INC
Form 10-Q
May 10, 2007

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

FORM 10Q

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

For the quarterly period ended **March 31, 2007**

OR

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER 1-11826
MIDSOUTH BANCORP, INC.

(Exact name of registrant as specified in its charter)

Louisiana

(State of other jurisdiction of incorporation or
organization)

72 -1020809

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

102 Versailles Boulevard, Lafayette, Louisiana 70501

(Address of principal executive offices, including zip code)

(337) 237-8343

(Registrant's telephone number, including area code)

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act 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.

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 Act.)

YES NO

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As of May 1, 2007, there were 6,271,390 shares of the registrant's Common Stock, par value \$0.10 per share, outstanding.

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Consolidated Statements of Condition**

	March 31, 2007 (unaudited)	December 31, 2006 (audited)
Assets		
Cash and due from banks	\$ 24,501,529	\$ 30,564,604
Federal funds sold and interest bearing deposits in banks	30,525,775	26,839,737
Total cash and cash equivalents	55,027,304	57,404,341
Securities available-for-sale, at fair value (cost of \$183,478,372 at March 31, 2007 and \$181,973,949 at December 31, 2006)	182,285,279	180,673,747
Securities held-to-maturity (estimated fair value of \$13,622,099 at March 31, 2007 and \$16,166,937 at December 31, 2006)	13,403,631	15,900,611
Loans, net of allowance for loan losses of \$4,899,937 at March 31, 2007 and \$4,976,857 at December 31, 2006	505,660,633	494,068,845
Other investments	2,525,075	2,501,150
Accrued interest receivable	5,237,049	5,491,730
Bank premises and equipment, net	31,487,509	30,609,332
Goodwill and intangibles	9,904,950	9,957,364
Cash surrender value of life insurance	4,101,662	4,068,116
Other assets	5,026,942	4,346,450
Total assets	\$ 814,660,034	\$ 805,021,686
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest bearing	\$ 180,435,459	\$ 182,595,931
Interest bearing	548,403,814	533,583,610
Total deposits	728,839,273	716,179,541
Securities sold under repurchase agreements	4,791,194	4,474,786
Federal Home Loan Banks advances	-	5,650,000
Accrued interest payable	971,119	1,196,822
Junior subordinated debentures	15,465,000	15,465,000
Other liabilities	2,917,073	2,312,061
Total liabilities	752,983,659	745,278,210
Stockholders' Equity:		
Common stock, \$0.10 par value- 10,000,000 shares authorized, 6,393,580 and 6,355,946 issued and 6,271,390 and 6,236,989 outstanding at March 31, 2007 and December 31, 2006, respectively	639,358	635,595

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Surplus	43,256,120	42,907,597
Unearned ESOP shares	(222,246)	(251,259)
Accumulated other comprehensive income	(787,441)	(858,133)
Treasury stock- 122,190 shares at March 31, 2007 and 118,957 shares at December 31, 2006, at cost	(2,610,838)	(2,518,411)
Retained earnings	21,401,422	19,828,087
Total stockholders' equity	61,676,375	59,743,476
Total liabilities and stockholders' equity	\$ 814,660,034	\$ 805,021,686

See notes to unaudited consolidated financial statements.

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MidSouth Bancorp, Inc. and Subsidiaries
Consolidated Statements of Earnings (unaudited)

	Three Months Ended March 31,	
	2007	2006
Interest income:		
Loans, including fees	\$ 10,993,865	\$ 8,964,364
Securities:		
Taxable	980,536	917,341
Nontaxable	1,016,138	723,714
Federal funds sold	429,928	405,892
Other interest income	21,544	24,002
Total interest income	13,442,011	11,035,313
Interest expense:		
Deposits	4,682,230	3,303,913
Securities sold under repurchase agreements	75,721	20,032
Junior subordinated debentures	330,226	314,149
Total interest expense	5,088,177	3,638,094
Net interest income	8,353,834	7,397,219
Provision for loan losses	-	320,000
Net interest income after provision for loan losses	8,353,834	7,077,219
Non-interest income:		
Service charges on deposits	2,306,183	1,926,598
Other charges and fees	940,953	916,001
Total non-interest income	3,247,136	2,842,599
Non-interest expenses:		
Salaries and employee benefits	4,786,564	3,785,751
Occupancy expense	1,715,252	1,486,455
Other	2,577,234	2,223,940
Total non-interest expense	9,079,050	7,496,146
Income before income taxes	2,521,920	2,423,672
Provision for income taxes	575,677	605,152
Net earnings	\$ 1,946,243	\$ 1,818,520
Earnings per share:		
Basic	\$ 0.31	\$ 0.30
Diluted	\$ 0.31	\$ 0.29

See notes to unaudited consolidated financial statements.

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MidSouth Bancorp, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income (unaudited)

	Three Months Ended March 31,	
	2007	2006
Net earnings	\$ 1,946,243	\$ 1,818,520
Other comprehensive income (loss), net of tax		
Unrealized losses on securities available-for-sale:		
Unrealized holding gains (losses) arising during the year, net of income tax (benefit) of \$23,511 and (\$259,408), respectively	70,692	(532,605)
Total other comprehensive income (loss)	70,692	(532,605)
Total comprehensive income	\$ 2,016,935	\$ 1,285,915

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MidSouth Bancorp, Inc. and Subsidiaries
Consolidated Statement of Stockholders' Equity (unaudited)
For the Three Months Ended March 31, 2007

	Common Stock Shares Amount	Common Surplus	ESOP obligation	Unrealized gains (losses) on securities AFS, net	Treasury Stock	Retained Earnings	Total	
Balance- January 1, 2007	6,355,946	\$ 635,595	\$ 42,907,597	\$ (251,259)	\$ (858,133)	\$ (2,518,411)	\$ 19,828,087	\$ 59,743,476
Dividends on common stock, \$0.06 per share	-	-	-	-	-	-	(372,908)	(372,908)
Exercise of stock options	37,634	3,763	183,503	-	-	-	-	187,266
Tax benefit resulting from exercise of stock options	-	-	109,221	-	-	-	-	109,221
Purchase of treasury stock	-	-	-	-	(92,427)	-	-	(92,427)
Net earnings	-	-	-	-	-	-	1,946,243	1,946,243
ESOP obligation, net of repayments	-	-	-	29,013	-	-	-	29,013
Excess of market value over book value of ESOP shares released, net adjustment	-	-	31,250	-	-	-	-	31,250
Net change in unrealized gains on securities AFS, net of	-	-	-	-	70,692	-	-	70,692

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taxes								
Stock option								
expense	-	-	24,549	-	-	-	-	24,549
Balance-								
March 31,								
2007	6,393,580	\$ 639,358	\$ 43,256,120	\$ (222,246)	\$ (787,441)	\$ (2,610,838)	\$ 21,401,422	\$ 61,676,375

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MidSouth Bancorp, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (unaudited)

	For the Three Months Ended March 31,	
	2007	2006
Cash flows from operating activities:		
Net earnings	\$ 1,946,243	\$ 1,818,520
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	688,140	642,697
Provision for loan losses	-	320,000
Deferred income tax benefit	(83,896)	(501)
Amortization of premiums on securities, net	159,230	185,997
Net gain on sale of premises and equipment	(4,807)	-
Net loss on sale of other real estate owned	17,849	-
Impairment on premises and equipment	13,637	-
Stock option compensation expense	24,549	-
Change in accrued interest receivable	254,681	272,055
Change in accrued interest payable	(225,703)	(147,144)
Other, net	(51,628)	143,035
Net cash provided by operating activities	\$ 2,738,295	\$ 3,234,659
Cash flows from investing activities:		
Proceeds from maturities and calls of securities held-to-maturity	\$ 2,500,000	\$ 1,249,650
Proceeds from maturities and calls of securities available-for-sale	8,245,043	8,440,298
Purchases of securities available-for-sale	(9,911,640)	(35,422,672)
Purchases of other investments	(24,000)	(331,550)
Loan originations, net of repayments	(11,705,589)	(8,739,380)
Purchase of premises and equipment	(1,577,793)	(3,956,978)
Proceeds from sale of premises and equipment	55,060	-
Proceeds from sales of other real estate owned	334,716	89,077
Net cash used in investing activities	\$ (12,084,203)	\$ (38,671,555)
Cash flows from financing activities:		
Change in deposits	\$ 12,659,732	\$ 49,440,712
Change in repurchase agreements	316,408	1,179,026
Repayments of FHLB advances	(13,013,000)	-
Proceeds from FHLB advances	7,363,000	-
Purchase of treasury stock	(92,427)	(321,881)
Payment of dividends on common stock	(561,329)	(593,574)
Proceeds from exercise of stock options	296,487	44,757
Net cash provided by financing activities	\$ 6,968,871	\$ 49,749,040
Net (decrease) increase in cash and cash equivalents	\$ (2,377,037)	\$ 14,312,144

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Cash and cash equivalents, beginning of quarter		57,404,341		52,437,002
Cash and cash equivalents, end of quarter	\$	55,027,304	\$	66,749,146

See notes to unaudited consolidated financial statements.

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MidSouth Bancorp, Inc. and Subsidiaries
Notes to Interim Consolidated Financial Statements
March 31, 2007
(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements and notes thereto contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company and its subsidiaries as of March 31, 2007 and the results of their operations and their cash flows for the periods presented. The interim financial information should be read in conjunction with the annual consolidated financial statements and the notes thereto included in the Company's 2006 Annual Report and Form 10K.

The results of operations for the three month period ended March 31, 2007 are not necessarily indicative of the results to be expected for the entire year.

Use of Estimates - 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 consolidated financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Summary of Significant Accounting Policies— The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States of America and general practices within the banking industry. With the exception of the adoption of FASB Interpretation No. 48 discussed herein, there have been no material changes or developments in the application of accounting principles or in our evaluation of the accounting estimates and the underlying assumptions or methodologies that we believe to be Critical Accounting Policies and Estimates as disclosed in our Form 10-K for the year ended December 31, 2006.

Recent Accounting Pronouncements—In June 2006, the FASB issued Interpretation No. 48 (“FIN 48”), *Accounting for Uncertainty in Income Taxes*. FIN 48 provides detailed guidance for the financial statement recognition, measurement, and disclosure of uncertain tax positions recognized in the financial statements. FIN 48 requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. If the tax position meets the more-likely-than-not recognition threshold, the tax effect is recognized at the largest amount of the benefit that is greater than 50% likely of being realized upon ultimate settlement. Any difference between the tax position taken in the tax return and the tax position recognized in the financial statements using the criteria above results in the recognition of a liability in the financial statements for the unrecognized benefit. Similarly, if a tax position fails to meet the more-likely-than-not recognition threshold, the benefit taken in a tax return will also result in the recognition of a liability in the financial statements for the full amount of the unrecognized benefit. The new interpretation was effective for the Company for the three months ended March 31, 2007. The adoption of this new accounting principle did not have a significant impact on the Company's financial position, results of operations, or cash flows.

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In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (“SFAS No. 157”). SFAS No. 157 establishes a framework for measuring fair value and expands disclosures about fair value measurements. The changes to current practice resulting from the application of this statement relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. SFAS No. 157 is effective for the fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company does not anticipate the adoption of this new accounting principle to have a material effect on its financial position, results of operations, or cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (“SFAS No. 159”). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for the fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company has not yet made a determination if it will elect to apply the options available in FAS 159.

In September 2006, the FASB ratified the consensus the EITF reached regarding EITF No.06-5, *Accounting for Purchases of Life Insurance — Determining the Amount that Could Be Realized in Accordance with FASB Technical Bulletin 85-4* (“EITF 06-5”). The EITF concluded that a policy holder should consider any additional amounts included in the contractual terms of the life insurance policy in determining the “amount that could be realized under the insurance contract.” For group policies with multiple certificates or multiple policies with a group rider, the Task Force also tentatively concluded that the amount that could be realized should be determined at the individual policy or certificate level, i.e., amounts that would be realized only upon surrendering all of the policies or certificates would not be included when measuring the assets. This interpretation is effective for the Company beginning in fiscal year 2007. The Company does not believe the adoption of EITF 06-5 will have a material impact on its financial position, results of operations, or cash flows.

2. Allowance for Loan Losses

A summary of the activity in the allowance for loan losses is as follows (in thousands):

	Three Months Ended March 31,	
	2007	2006
Balance, beginning of period	\$ 4,977	\$ 4,355
Provision for loan losses	-	320
Recoveries	18	109
Loans charged-off	(95)	(132)
Balance, end of period	\$ 4,900	\$ 4,652

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Following is a summary of the information used in the computation of earnings per common share (in thousands):

	Three Months Ended March 31,	
	2007	2006
Net earnings	\$ 1,946	\$ 1,818
Weighted average number of common shares outstanding used in computation of basic earnings per common share	6,240	6,177
Effect of dilutive securities:		
Stock options	90	173
Weighted average number of common shares outstanding plus effect of dilutive securities - used in computation of diluted earnings per share	6,330	6,350

4. Declaration of Dividends

On February 14, 2007, the Company declared a \$.06 per share quarterly dividend for holders of record on March 14, 2007.

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

MidSouth Bancorp, Inc. ("the Company") is a two-bank holding company that conducts substantially all of its business through its wholly-owned subsidiary banks (the "Banks"), MidSouth Bank, N.A. ("MidSouth LA"), headquartered in Lafayette, Louisiana and MidSouth Bank ("MidSouth TX"), headquartered in Beaumont, Texas. Following is management's discussion of factors that management believes are among those necessary for an understanding of the Company's financial statements. The discussion should be read in conjunction with the Company's consolidated financial statements and the notes thereto presented herein and with the financial statements, the notes thereto and related Management's Discussion & Analysis in the Company's 10-K for the year ended December 31, 2006.

Forward Looking Statements

The Private Securities Litigation Act of 1995 provides a safe harbor for disclosure of information about a company's anticipated future financial performance. This act protects a company from unwarranted litigation if actual results differ from management expectations. This management's discussion and analysis reflects management's current views and estimates of future economic circumstances, industry conditions, the Company's performance, and financial results based on reasonable assumptions. A number of factors and uncertainties could cause actual results to differ materially from the anticipated results and expectations expressed in the discussion. These factors and uncertainties include, but are not limited to:

- changes in interest rates and market prices that could affect the net interest margin, asset valuation, and expense levels;
- changes in local economic and business conditions that could adversely affect customers and their ability to repay borrowings under agreed upon terms and/or adversely affect the value of the underlying collateral related to the borrowings;
 - increased competition for deposits and loans which could affect rates and terms;
- changes in the levels of prepayments received on loans and investment securities that adversely affect the yield and value of the earning assets;
- a deviation in actual experience from the underlying assumptions used to determine and establish the Allowance for Loan Losses ("ALL");
 - changes in the availability of funds resulting from reduced liquidity or increased costs;
- the timing and impact of future acquisitions, the success or failure of integrating operations, and the ability to capitalize on growth opportunities upon entering new markets;
 - the ability to acquire, operate, and maintain effective and efficient operating systems;
- increased asset levels and changes in the composition of assets which would impact capital levels and regulatory capital ratios;
 - loss of critical personnel and the challenge of hiring qualified personnel at reasonable compensation levels;
- changes in government regulations and accounting principles, policies, and guidelines applicable to financial holding companies and banking; and
 - acts of terrorism, weather, or other events beyond the Company's control.

Critical Accounting Policies

Certain critical accounting policies affect the more significant judgments and estimates used in the preparation of the consolidated financial statements. The Company's significant accounting policies are described in the notes to the consolidated financial statements included in Form 10-K for the year ended December 31, 2006. The accounting principles followed by the Company and the methods of applying these principles conform with accounting principles generally accepted in the United States of America ("GAAP") and general banking practices. The Company's most critical accounting policy relates to its allowance for loan losses, which reflects the estimated losses resulting from the inability of its borrowers to make loan payments. If the financial condition of its borrowers were to deteriorate,

resulting in an impairment of their ability to make payments, the Company's estimates would be updated and additional provisions for loan losses may be required, see "Asset Quality".

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Another of the Company's critical accounting policies relates to its goodwill and intangible assets. Goodwill represents the excess of the purchase price over the fair value of net assets acquired. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill is not amortized but evaluated for impairment annually. If the fair value of an asset exceeds the carrying amount of the asset, no charge to goodwill is made. If the carrying amount exceeds the fair value of the asset, goodwill will be adjusted through a charge to earnings.

A third critical accounting policy relates to stock-based compensation and the Company's adoption of the provisions of SFAS No. 123R *Share-Based Payment* (Revised 2004), on a modified basis, on January 1, 2006. The Company had previously adopted SFAS No. 123R on January 1, 2005. Among other things, SFAS No. 123R eliminates the ability to account for stock-based compensation using the intrinsic value based method of accounting and requires that such transactions be recognized as compensation expense in the income statement based on the fair market value on the date of the grant. SFAS No. 123R further requires that management make assumptions including stock price volatility and employee turnover that are utilized to measure compensation expense. The fair value of the stock options granted is estimated at the date of grant using the Black-Scholes option-pricing model. This model requires the input of highly subjective assumptions. The Company recognized stock option expense of \$24,549 for the grant date fair value of stock options vested in the quarter ended March 31, 2007. As of March 31, 2007, options granted to acquire 154,425 shares were outstanding under the 1997 Stock Incentive Plan and no new options were granted during the first quarter of 2007 under that expiring plan. A new incentive plan, the 2007 Omnibus Incentive Compensation Plan, was included as an exhibit to the Company's Proxy Statement filed with the Securities and Exchange Commission on April 23, 2007. The new plan, pending shareholder approval, provides for grants of equity-based incentive awards, including stock options, restricted stock, restricted stock units, stock appreciation rights, performance shares, performance units, stock awards, and cash awards.

Results of Operations

First quarter 2007 earnings totaled \$1,946,243, a 7.02% increase over earnings of \$1,818,520 for the same period in 2006. A decrease in the provision for loan losses of \$320,000 was the principal reason for the positive change in earnings in quarterly comparison. Revenues for the Company, defined as net interest income and non-interest income, increased \$1,361,152 for the first quarter of 2007 compared to the first quarter of 2006. A \$1,582,904 increase in non-interest expenses attributed to franchise expansion offset the improvement in revenues. Diluted earnings per share were \$0.31 for the first quarter of 2007, compared to \$0.29 per share for the first quarter of 2006. Return on average equity was 13.07% for the first quarter of 2007 compared to 13.74% for the first quarter of 2006. The leverage capital ratio was 8.50% at March 31, 2007 compared to 8.48% at March 31, 2006. Earnings per share data have been adjusted to reflect a five-for-four (25%) stock dividend distributed on October 23, 2006.

Net interest income before provision for loan losses for the first quarter of 2007 increased 12.9% to \$8,353,834 compared to \$7,397,219 for the first quarter of 2006. Net interest margin, on a fully taxable-equivalent basis, was 4.86% in the first quarter of 2007, an improvement of 6 basis points from 4.80% in the first quarter of 2006.

Total consolidated assets increased \$9.7 million, or 1.2%, from \$805.0 million at the year end 2006 to \$814.7 million at the end of the first quarter of 2007. Total loans grew \$11.6 million, or 2.3%, from \$499.0 million at December 31, 2006 to \$510.6 million at March 31, 2007, primarily in real estate construction loans. Total deposits increased \$12.6 million, or 1.8%, from \$716.2 million at December 31, 2006 to \$728.8 million at March 31, 2007. Deposit growth has been primarily in the Company's Platinum money market and checking accounts, which represented 35.8% of total deposits at March 31, 2007. The Platinum money market and checking accounts offer competitive rates of interest that adjust to changes in market rates and are more economically beneficial to the Company.

Nonperforming assets, including loans 90 days or more past due, remained stable, totaling \$2.3 million at March 31, 2007 and December 31, 2006. As a percentage of total assets, nonperforming assets were 0.28% and 0.29% for March 31, 2007 and December 31, 2006, respectively. Net charge-offs to total loans were 0.02% for the first quarter of 2007

as compared to .01% for the first quarter of 2006.

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Continued strong credit quality ratios, supported by management's most recent analysis of the ALL, indicated that the ALL to total loans ratio of 0.96% was appropriate at March 31, 2007. Accordingly, no provision expense for loan losses was recorded in the first quarter 2007, compared to \$320,000 in provision expense recorded for the first quarter of 2006 and \$180,000 recorded for the fourth quarter of 2006. As a percentage of total loans, the allowance for loan losses for the quarters ended March 31, 2007 and 2006 was 0.96% and 1.03%, respectively.

Earnings Analysis

Net Interest Income

The primary source of earnings for the Company is the difference between interest earned on loans and investments (earning assets) and interest paid on deposits and other liabilities (interest-bearing liabilities). Changes in the volume and mix of earning assets and interest-bearing liabilities combined with changes in market rates of interest greatly affect net interest income.

The Company's net interest margin on a taxable-equivalent basis, which is net income as a percentage of average earning assets, was 4.86% at March 31, 2007, up 6 basis points from 4.80% at March 31, 2006. Tables 1 and 2 following this discussion analyze the changes in taxable-equivalent net interest income for the two quarters ended March 31, 2007 and 2006.

Average earning assets increased \$81.3 million, or 12.5%, from \$650.3 million in March 2006 to \$731.6 million in March 2007. The average yield on earning assets improved 61 basis points, from 7.07% at March 31, 2006 to 7.68% at March 31, 2007. The average volume of loans increased \$56.7 million, or 12.8%, and loan yields increased 71 basis points, from 8.20% for the quarter ended March 31, 2006 to 8.91% for the quarter ended March 31, 2007. The average taxable-equivalent yield on investment securities increased 30 basis points, from 4.63% to 4.93%, respectively. The average volume of investment securities increased \$28.4 million, from \$169.3 million at March 31, 2006 to \$197.7 million at March 31, 2007. The mix of average earning assets remained constant, with average loans at 68% of average earning assets for both quarters reviewed. Improvement in the yield on average earning assets, from 7.07% at March 31, 2006 to 7.68% at March 31, 2007, resulted primarily from a 50 basis point increase in the Prime rate during the period reviewed.

The Company's strong demand deposit mix, defined as all deposits except Certificates of Deposit ("CDs"), reflected improvement in average volume from \$521.4 million, or 81.2%, of average total deposits at March 31, 2006, to \$595.6 million, or 83.0%, of average total deposits at March 31, 2007. The average volume of CDs increased \$1.2 million, from \$121.0 million at March 31, 2006 to \$122.2 million at March 31, 2007 and represented 18.8% of total deposits at March 31, 2006 compared to 17.0% at March 31, 2007. The higher volume of demand deposits reflects the Company's retail strategy of developing long-term banking relationships with depositors. That strategy, along with competitive market rates, yielded growth in the Company's Platinum Money Market and Platinum Checking accounts. The competitive rates on the Platinum accounts contributed greatly to the 64 basis point increase in the average rate paid on average interest-bearing deposits between the two quarters compared, from 2.86% at March 31, 2006 to 3.50% at March 31, 2007.

The average rate paid on the Company's junior subordinated debentures increased 42 basis points from first quarter of 2006 to first quarter of 2007 due to increases in the floating rate paid on the \$8.2 million of adjustable debentures. The rate at March 31, 2007 was 7.85%. The debentures mature on September 20, 2034 and, under certain circumstances, are subject to repayment on September 20, 2009 or thereafter. In February 2001, the Company issued \$7,217,000 of junior subordinated debentures. The debentures carry a fixed interest rate of 10.20% and mature on February 22, 2031.

The impact of the changes in yield and volume of the earning assets and interest-bearing liabilities discussed above resulted in an increase of \$1.1 million to taxable-equivalent net interest income from March 31, 2006 to March 31, 2007.

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Table 1
Consolidated Average Balances, Interest and Rates
(in thousands)

	Three Months Ended March 31,					
	2007		2006		Average	
	Average Volume	Interest	Average Yield/Rate	Average Volume	Interest	Yield/Rate
Assets						
Investment securities and interest bearing deposits: ¹						
Taxable	\$ 85,373	\$ 981	4.60%	\$ 85,638	\$ 917	4.28%
Tax exempt ²	109,859	1,435	5.22%	81,630	1,020	5.00%
Other investments	2,511	22	3.50%	2,025	24	4.74%
Total investments	197,743	2,438	4.93%	169,293	1,961	4.63%
Federal funds sold	33,550	430	5.20%	37,349	406	4.41%
Loans:						
Commercial and real estate	395,224	8,721	8.95%	349,123	7,029	8.17%
Installment	105,047	2,272	8.77%	94,487	1,935	8.31%
Total loans ³	500,271	10,993	8.91%	443,610	8,964	8.20%
Total earning assets	731,564	13,861	7.68%	650,252	11,331	7.07%
Allowance for loan losses	(4,949)			(4,358)		
Nonearning assets	76,843			71,265		
Total assets	\$ 803,458					