LAKELAND FINANCIAL CORP
Form 10-Q
November 08, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2007

OR

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

For the transition period from ____________ to _____________

LAKELAND FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Indiana	**0-11487**	**35-1559596**
(State or other jurisdiction Of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

202 East Center Street, P.O. Box 1387, Warsaw, Indiana 46581-1387

(Address of principal executive offices)(Zip Code)

(574) 267-6144

Registrant s telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ]

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

Large accelerated filer[ ] Accelerated filer [X] Non-accelerated filer [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES [ ] NO [X]

Number of shares of common stock outstanding at October 31, 2007: 12,205,123

LAKELAND FINANCIAL CORPORATION

Form 10-Q Quarterly Report

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PART 1

LAKELAND FINANCIAL CORPORATION

ITEM 1 FINANCIAL STATEMENTS

LAKELAND FINANCIAL CORPORATION

CONSOLIDATED BALANCE SHEETS

As of September 30, 2007 and December 31, 2006

(in thousands except for share data)

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	September 30, 2007 (Unaudited)	December 31, 2006
ASSETS		
Cash and due from banks	**$ 36,680**	$ 65,252
Short-term investments	**5,524**	54,447
Total cash and cash equivalents	**42,204**	119,699
Securities available for sale (carried at fair value)	**321,163**	296,191
Real estate mortgage loans held for sale	**875**	2,175
Loans, net of allowance for loan losses of $15,074 and $14,463	**1,433,632**	1,339,374
Land, premises and equipment, net	**26,586**	25,177
Bank owned life insurance	**21,305**	20,570
Accrued income receivable	**8,893**	8,720
Goodwill	**4,970**	4,970
Other intangible assets	**671**	825
Other assets	**24,381**	19,005
Total assets	**$ 1,884,680**	$ 1,836,706

(continued)

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LAKELAND FINANCIAL CORPORATION

CONSOLIDATED BALANCE SHEETS

As of September 30, 2007 and December 31, 2006

(in thousands except for share data)

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	September 30, 2007 (Unaudited)	**December 31, 2006**
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Noninterest bearing deposits	**$ 218,743**	$ 258,472
Interest bearing deposits	**1,244,241**	1,217,293
Total deposits	**1,462,984**	1,475,765
Short-term borrowings		
Federal funds purchased	**13,000**	0
Securities sold under agreements to repurchase	**128,629**	106,670
U.S. Treasury demand notes	**1,176**	814
Other short-term borrowings	**90,000**	80,000
Total short-term borrowings	**232,805**	187,484
Accrued expenses payable	**15,489**	11,959
Other liabilities	**397**	338
Long-term borrowings	**44**	45
Subordinated debentures	**30,928**	30,928
Total liabilities	**1,742,647**	1,706,519
STOCKHOLDERS' EQUITY		
Common stock: 180,000,000 shares authorized, no par value 12,203,123 shares issued and 12,107,775 outstanding as of September 30, 2007 12,117,808 shares issued and 12,031,023 outstanding as of December 31, 2006	**1,453**	1,453
Additional paid-in capital	**17,967**	16,525
Retained earnings	**125,974**	116,516
Accumulated other comprehensive loss	**(2,033)**	(3,178)
Treasury stock, at cost (2007 - 95,348 shares, 2006 - 86,785 shares)	**(1,328)**	(1,129)
Total stockholders' equity	**142,033**	130,187
Total liabilities and stockholders' equity	**$ 1,884,680**	$ 1,836,706

The accompanying notes are an integral part of these consolidated financial statements.

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LAKELAND FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

For the Three Months and Nine Months Ended September 30, 2007 and 2006

(in thousands except for share and per share data)

(Unaudited)

(Page 1 of 2)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
NET INTEREST INCOME				
Interest and fees on loans				
Taxable	**$ 26,176**	$ 24,000	**$ 76,623**	$ 67,137
Tax exempt	**30**	74	**110**	206
Interest and dividends on securities				
Taxable	**2,902**	2,463	**8,366**	7,461
Tax exempt	**618**	591	**1,838**	1,793
Interest on short-term investments	**365**	157	**671**	504
Total interest income	**30,091**	27,285	**87,608**	77,101
Interest on deposits	**13,773**	12,398	**40,071**	31,875
Interest on borrowings				
Short-term	**1,956**	1,167	**5,130**	4,363
Long-term	**643**	661	**1,909**	1,877
Total interest expense	**16,372**	14,226	**47,110**	38,115
NET INTEREST INCOME	**13,719**	13,059	**40,498**	38,986
Provision for loan losses	**1,697**	510	**3,244**	1,602
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	**12,022**	12,549	**37,254**	37,384
NONINTEREST INCOME				
Wealth advisory fees	**761**	608	**2,306**	1,891
Investment brokerage fees	**386**	344	**1,145**	973
Service charges on deposit accounts	**1,890**	1,919	**5,355**	5,499
Loan, insurance and service fees	**620**	548	**1,864**	1,746
Merchant card fee income	**725**	661	**1,973**	1,809
Other income	**455**	476	**1,393**	1,496
Net gains on sales of real estate mortgage loans held for sale	**116**	137	**480**	467
Net securities gains (losses)	**0**	(14)	**36**	(68)
Total noninterest income	**4,953**	4,679	**14,552**	13,813

(continued)

LAKELAND FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

For the Three Months and Nine Months Ended September 30, 2007 and 2006

(in thousands except for share and per share data)

(Unaudited)

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
NONINTEREST EXPENSE				
Salaries and employee benefits	**6,032**	5,595	**17,706**	16,609
Net occupancy expense	**680**	680	**1,992**	1,901
Equipment costs	**459**	430	**1,372**	1,345
Data processing fees and supplies	**719**	611	**2,101**	1,754
Credit card interchange	**485**	465	**1,299**	1,211
Other expense	**2,336**	2,156	**6,595**	6,721
Total noninterest expense	**10,711**	9,937	**31,065**	29,541
INCOME BEFORE INCOME TAX EXPENSE	**6,264**	7,291	**20,741**	21,656
Income tax expense	**1,890**	2,561	**6,354**	7,494
NET INCOME	**$ 4,374**	$ 4,730	**$ 14,387**	$ 14,162
Other comprehensive income/loss, net of tax:				
Amortization of net actuarial loss on pension and SERP plans	**15**	0	**45**	0
Unrealized gain/(loss) on available for sale securities	**2,537**	3,107	**1,101**	827
TOTAL COMPREHENSIVE INCOME	**$ 6,926**	$ 7,837	**$ 15,533**	$ 14,989
BASIC WEIGHTED AVERAGE COMMON SHARES	**12,197,790**	12,084,244	**12,182,658**	12,054,663
BASIC EARNINGS PER COMMON SHARE	**$ 0.36**	$ 0.39	**$ 1.18**	$ 1.17
DILUTED WEIGHTED AVERAGE COMMON SHARES	**12,433,701**	12,388,372	**12,425,238**	12,366,453
DILUTED EARNINGS PER COMMON SHARE	**$ 0.35**	$ 0.38	**$ 1.16**	$ 1.15

The accompanying notes are an integral part of these consolidated financial statements.

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LAKELAND FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended September 30, 2007 and 2006

(in thousands)

(Unaudited)

(Page 1 of 2)

	2007	2006
Cash flows from operating activities:		
Net income	$ 14,387	$ 14,162
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	1,242	1,241
Provision for loan losses	3,244	1,602
Amortization of intangible assets	154	157
Amortization of loan servicing rights	311	467
Net change in loan servicing rights valuation allowance	(50)	(64)
Loans originated for sale	(29,566)	(26,715)
Net gain on sales of loans	(480)	(466)
Proceeds from sale of loans	31,094	26,467
Net (gain) loss on sale of premises and equipment	1	(19)
Net loss on sales of securities available for sale	(36)	68
Net securities amortization	422	1,078
Stock compensation expense	135	141
Earnings on life insurance	(591)	(538)
Net change:		
Accrued income receivable	(173)	(829)
Accrued expenses payable	3,574	2,196
Other assets	(1,392)	(1,732)
Other liabilities	289	(1,600)
Total adjustments	8,178	1,454
Net cash from operating activities	22,565	15,616
Cash flows from investing activities:		
Proceeds from sale of securities available for sale	$ 13,530	$ 21,616
Proceeds from maturities, calls and principal paydowns of securities available for sale	30,743	38,681
Purchases of securities available for sale	(67,824)	(68,724)
Purchase of life insurance	(144)	(145)
Net increase in total loans	(102,201)	(132,614)
Proceeds from sales of land, premises and equipment	85	194
Purchases of land, premises and equipment	(2,737)	(1,989)
Net cash from investing activities	(128,548)	(142,981)

(Continued)

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LAKELAND FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended September 30, 2007 and 2006

(in thousands)

(Unaudited)

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	2007	2006
Cash flows from financing activities:		
Net increase (decrease) in total deposits	**(12,781)**	267,632
Net increase (decrease) in short-term borrowings	**45,321**	(115,730)
Payments on long-term borrowings	**(1)**	(1)
Dividends paid	**(4,929)**	(4,394)
Proceeds from stock option exercise	**1,108**	1,542
Purchase of treasury stock	**(230)**	(199)
Net cash from financing activities	**28,488**	148,850
Net change in cash and cash equivalents	**(77,495)**	21,485
Cash and cash equivalents at beginning of the period	**119,699**	82,679
Cash and cash equivalents at end of the period	**$ 42,204**	$ 104,164
Cash paid during the period for:		
Interest	**$ 43,093**	$ 36,276
Income taxes	**7,052**	8,395
Supplemental non-cash disclosures:		
Loans transferred to other real estate	**4,699**	71

The accompanying notes are an integral part of these consolidated financial statements.

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LAKELAND FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007

(In thousands)

(Unaudited)

NOTE 1. BASIS OF PRESENTATION

This report is filed for Lakeland Financial Corporation (the Company) and its wholly-owned subsidiary, Lake City Bank (the Bank). All significant inter-company balances and transactions have been eliminated in consolidation. Also included is the Bank s wholly-owned subsidiary, LCB Investments II, Inc. (LCB Investments). LCB Investments also owns LCB Funding, Inc. (LCB Funding), a real estate investment trust.

The unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with instructions for Form 10-Q. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (all of which are normal and recurring in nature) considered necessary for a fair presentation have been included. Operating results for the three-month and nine-month periods ending September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. The 2006 Lakeland Financial Corporation Annual Report on Form 10-K should be read in conjunction with these statements.

NOTE 2. EARNINGS PER SHARE

Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options. Stock options for 14,000 and 0 shares as of September 30, 2007 and September 30, 2006, respectively, were not considered in computing diluted earnings per common share because they were antidilutive. Earnings and dividends per share are restated for all stock splits and dividends through the date of issue of the financial statements. The common shares included in Treasury Stock for 2007 and 2006 reflect the acquisition of 95,348 and 86,785 shares, respectively, of Lakeland Financial Corporation common stock that have been purchased under a directors deferred compensation plan. Because these shares are held in trust for the participants, they are treated as outstanding when computing the weighted-average common shares outstanding for the calculation of both basic and diluted earnings per share.

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NOTE 3. LOANS

	September 30, 2007	December 31, 2006
Commercial and industrial loans	$ 923,168	$ 847,233
Commercial real estate - multifamily loans	15,385	17,351
Commercial real estate construction loans	75,765	82,183
Agri-business and agricultural loans	149,976	139,644
Residential real estate mortgage loans	122,063	109,176
Home equity loans	109,096	104,506
Installment loans and other consumer loans	53,075	53,804
Subtotal	1,448,528	1,353,897
Less: Allowance for loan losses	(15,074)	(14,463)
Net deferred loan (fees)/costs	178	(60)
Loans, net	$ 1,433,632	$ 1,339,374
Impaired loans	$ 8,575	$ 13,333
Non-performing loans	$ 9,318	$ 14,119
Allowance for loan losses to total loans	1.04%	1.07%

Changes in the allowance for loan losses are summarized as follows:

	Nine Months Ended September 30, 2007	2006
Balance at beginning of period	$ 14,463	$ 12,774
Provision for loan losses	3,244	1,602
Charge-offs	(2,908)	(176)
Recoveries	275	88
Net loans charged-off	(2,633)	(88)
Balance at end of period	$ 15,074	$ 14,288

NOTE 4. SECURITIES

The fair values of securities available for sale were as follows:

	September 30, 2007	December 31, 2006
U.S. Treasury securities	$ 1,190	$ 965
U.S. Government agencies	33,965	30,525
Mortgage-backed securities	228,954	210,000
State and municipal securities	57,054	54,701
Total	$ 321,163	$ 296,191

As of September 30, 2007, net unrealized losses on the total securities available for sale portfolio totaled $1.1 million. As of December 31, 2006, net unrealized losses on the total securities available for sale portfolio totaled $2.9 million. Management considers the unrealized losses to be market driven and no loss is expected to be realized unless the securities are sold. All of the securities are backed by the U.S. Government, government agencies, government sponsored agencies or are A rated or better, except for certain non-local municipal securities. None of the securities have call provisions (with the exception of the municipal securities) and payments as originally agreed are being received. There are no concerns of credit losses and there is nothing to indicate that full principal will not be received. The Company does not have a history of actively trading securities, but keeps the securities available for sale should liquidity or other needs develop that would warrant the sale of securities. While these securities are held in the available for sale portfolio, the current intent and ability is to hold them until a recovery in fair value or maturity.

NOTE 5. EMPLOYEE BENEFIT PLANS

Components of Net Periodic Benefit Cost

	Nine Months Ended September 30,			
	Pension Benefits		SERP Benefits	
	2007	2006	2007	2006
Service cost	$ 0	$ 0	$ 0	$ 0
Interest cost	106	108	56	57
Expected return on plan assets	(130)	(126)	(70)	(69)
Recognized net actuarial loss	33	33	43	39
Net pension expense	$ 9	$ 15	$ 29	$ 27

	Three Months Ended September 30,			
	Pension Benefits		SERP Benefits	
	2007	2006	2007	2006
Service cost	$ 0	$ 0	$ 0	$ 0
Interest cost	36	36	19	19
Expected return on plan assets	(44)	(42)	(24)	(23)
Recognized net actuarial loss	11	11	15	13
Net pension expense	$ 3	$ 5	$ 10	$ 9

The Company previously disclosed in its financial statements for the year ended December 31, 2006 that it expected to contribute $35,000 to its pension plan and $59,000 to its SERP plan in 2007. As of September 30, 2007, $104,000 had been contributed to the pension plan and $59,000 to the SERP plan. The Company does not anticipate making any additional contributions to its pension plan or SERP plan during the remainder of 2007.

NOTE 6. NEW ACCOUNTING PRONOUNCEMENTS

The Company adopted FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 , on January 1, 2007. FIN 48 requires that realization of an uncertain income tax position be more likely than not before it can be recognized in the financial statements. Further, FIN 48 prescribes the benefit to be recorded in the financial statements as the largest amount more likely than not to be realized assuming a review by tax authorities having all relevant information and applying current conventions. FIN 48 also clarifies the financial statement classification of tax-related penalties and interest and sets forth new disclosures regarding unrecognized tax benefits. The adoption of this standard did not have an impact on the financial statements of the Company. Should the accrual of any interest or penalties relative to unrecognized tax benefits be necessary, it is the Company s policy to record such accruals in its income taxes accounts; no such accruals exist as of January 1, 2007. As of September 30, 2007 the Company had accrued a liability of $68,000 for unrecognized tax benefits. The Company and its subsidiaries file a consolidated U.S. federal income tax return and a combined unitary return in the state of Indiana. These returns are subject to examinations by taxing authorities for all years after 2002.

The Company adopted FASB Statement of Financial Accounting Standards No. 156 (SFAS No. 156), *Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140*, on January 1, 2007. SFAS No. 156 requires the recognition of a servicing asset or servicing liability when entering into a servicing contract to service a financial asset and requires all separately recognized servicing assets and liabilities to be initially measured at fair value. Further, SFAS No. 156 permits a choice of subsequent measurement methods for each class of separately recognized servicing assets and servicing liabilities between the current amortization method and the fair value measurement method. At initial adoption, SFAS No. 156 permits a one time reclassification of available for sale securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available for sale securities under Statement 115, provided the securities are identified in some manner as offsetting the exposure to changes in fair value of servicing assets or servicing liabilities that are subsequently measured at fair value. Finally, SFAS No. 156 requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities. The adoption of SFAS No. 156 did not have a material impact on the Company s financial statements.

FASB Statement of Financial Accounting Standards No. 157 (SFAS No. 157), *Fair Value Measurements* is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement emphasizes that fair value is a market-based measurement and should be determined based on assumptions that a market participant would use when pricing an asset or liability. This Statement clarifies that market participant assumptions should include assumptions about risk as well as the effect of a restriction on the sale or use of an asset. Additionally, this Statement establishes a fair value hierarchy that provides the highest priority to quoted prices in active markets and the lowest priority to unobservable data. The Company does not anticipate the adoption of this standard will have any material effect on the Company s operating results or financial condition.

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 159 (SFAS No. 159), The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. This statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company will adopt SFAS No. 159 on January 1, 2008, and does not expect the adoption to have a material impact on the financial statements.

NOTE 7. RECLASSIFICATIONS

Certain amounts appearing in the financial statements and notes thereto for prior periods have been reclassified to conform with the current presentation. The reclassification had no effect on net income or stockholders equity as previously reported.

Part 1

LAKELAND FINANCIAL CORPORATION

ITEM 2 - MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

and

RESULTS OF OPERATIONS

September 30, 2007

OVERVIEW

Lakeland Financial Corporation is the holding company for Lake City Bank. The Company is headquartered in Warsaw, Indiana and operates 43 offices in 12 counties in northern Indiana. The Company earned $14.4 million for the first nine months of 2007, versus $14.2 million in the same period of 2006, an increase of 1.6%. The increase was driven by a $1.5 million increase in net interest income as well as an increase of $739,000 in noninterest income. In addition, the Company s effective tax rate decreased to 30.6% during the first nine months of 2007 compared to 34.6% during the same period of 2006. Offsetting these positive impacts was an increase of $1.6 million in the provision for loan losses and an increase of $1.5 million in noninterest expense. Basic earnings per share for the first nine months of 2007 were $1.18 per share, versus $1.17 per share for the first nine months of 2006. Diluted earnings per share reflect the potential dilutive impact of stock options granted under the stock option plan. Diluted earnings per share for the first nine months of 2007 were $1.16 per share, versus $1.15 for the first nine months of 2006.

Net income for the third quarter of 2007 was $4.4 million, a decrease of 7.5% versus $4.7 million for the comparable period of 2006. The decrease was driven by a $1.2 million increase in the provision for loan losses, as well as a $774,000 increase in noninterest expense. Offsetting these negative impacts was an increase of $660,000 in net interest income and an increase of $274,000 in noninterest income. In addition, the Company s effective tax rate decreased to 30.2% for the third quarter of 2007 compared to 35.1% during the same period of 2006. Basic earnings per share for the third quarter of 2007 were $0.36 per share, versus $0.39 per share for the third quarter of 2006. Diluted earnings per share for the third quarter of 2007 were $0.35 per share, versus $0.38 per share for the third quarter of 2006.

RESULTS OF OPERATIONS

Net Interest Income

For the nine-month period ended September 30, 2007, net interest income totaled $40.5 million, an increase of 3.9%, or $1.5 million, versus the first nine months of 2006. This increase was primarily due to a $145.6 million, or 9.4%, increase in average earning assets to $1.702 billion. For the three-month period ended September 30, 2007, net interest income totaled $13.7 million, an increase of 5.1%, or $660,000. This increase was driven by a $150.8 million, or 9.5% increase in average earning assets, to $1.745 billion.

Given the Company s mix of interest earning assets and interest bearing liabilities at September 30, 2007, the Company would generally be considered to have a slightly asset-sensitive balance sheet, although the current interest rate environment has countered the asset-sensitive nature of the balance sheet. An asset-

sensitive balance sheet structure would normally be expected to produce a stable or declining net interest margin in a declining rate environment. As the Company s balance sheet has become more neutral in structure, management believes that future rate movements will have less impact on net interest margin than historically, although other factors such as deposit mix, market deposit rate pricing and non-bank deposit products could have a dramatic impact on net interest margin. The Company s mix of deposits has shifted to more reliance on certificates of deposits, specifically public fund deposits and brokered deposits, and corporate and public fund money market and repurchase agreements, which generally carry a higher interest rate cost than other types of interest bearing deposits.

During the first nine months of 2007, total interest and dividend income increased by $10.5 million, or 13.6%, to $87.6 million, versus $77.1 million during the first nine months of 2006. During the third quarter of 2007, interest and dividend income increased by $2.8 million, or 10.3%, to $30.1 million, versus $27.3 million during the same quarter of 2006. These increases were primarily the result of an increase in average earning assets, as well as generally higher interest rates in 2007 versus 2006, prior to the Federal Reserve Bank s interest rate cut late in the third quarter. The tax equivalent yield on average earning assets increased by 25 basis points to 7.0% for the nine-month period ended September 30, 2007 versus the same period of 2006. For the third quarter of 2007, the yield was unchanged at 6.9%, versus the third quarter of 2006.

During the first nine months of 2007, loan interest income increased by $9.4 million, or 13.9%, to $76.6 million, versus $67.1 million during the first nine months of 2006. The increase was driven by a $134.5 million, or 10.8%, increase in average daily loan balances, as well as a 20 basis point increase in the tax equivalent yield on loans to 7.4%, versus 7.2% in the first nine months of 2006. During the third quarter of 2007, loan interest income increased $2.1 million, or 8.9%, to $26.2 million, versus $24.1 million during the third quarter of 2006. The increase was driven by a $122.9 million, or 9.5%, increase in average daily loan balances. The tax equivalent yield on loans was unchanged at 7.4%, versus the third quarter of 2006.

The average daily securities balances for the first nine months of 2007 increased $7.6 million, or 2.6%, to $299.9 million, versus $292.3 million for the same period of 2006. During the same periods, income from securities increased by $950,000, or 10.3%, to $10.2 million versus $9.3 million during the first nine months of 2006. The increase was primarily the result of a 31 basis point increase in the tax equivalent yield on securities, to 4.9%, versus 4.6% in the first nine months of 2006. The average daily securities balances for the third quarter of 2007 increased $11.5 million, or 3.9%, to $304.5 million, versus $292.9 million for the same period of 2006. During the third quarter of 2007, income from securities was $3.5 million, an increase of $466,000, or 15.3%, versus the third quarter of 2006. The increase was primarily the result of a 45 basis point increase in the tax equivalent yield on securities to 4.9%, versus 4.5% in the third quarter of 2006.

Total interest expense increased $9.0 million, or 23.6%, to $47.1 million for the nine-month period ended September 30, 2007, from $38.1 million for the comparable period in 2006. The increase was primarily the result of a 50 basis point increase in the Company s daily cost of funds to 3.8%, versus 3.3% for the same period of 2006. Total interest expense increased $2.1 million, or 15.1%, to $16.4 million for the third quarter of 2007, versus $14.2 million for the third quarter of 2006. The increase was primarily the result of a 26 basis point increase in the Company s daily cost of funds to 3.8%, from 3.6% for the same period of 2006. Increases in total deposits also contributed to increases in total interest expense over the nine-month and three-month periods.

On an average daily basis, total deposits (including demand deposits) increased $100.2 million, or 7.4%, to $1.462 billion for the nine-month period ended September 30, 2007, versus $1.362 billion during the same period in 2006. The average daily balances for the third quarter of 2007 increased $58.6 million, or 4.1%, to $1.485 billion from $1.426 billion during the third quarter of 2006. On an average daily basis, non-interest bearing demand deposits increased to $224.3 million for the nine-month period ended September 30, 2007, versus $219.9 million for the same period in 2006. The average daily noninterest bearing demand deposit balances for the third quarter of 2007 were $229.1 million, versus $219.8 million for the third quarter of 2006. On an average daily basis, interest bearing transaction accounts increased $14.2 million, or 3.7%, to $403.9 million for the nine-month period ended September 30, 2007, versus the same period in 2006. Average daily interest bearing transaction accounts increased $31.6 million, or 7.7%, to $443.6 million for the third quarter of 2007, versus $412.0 million for the third quarter of 2006. When comparing the nine months ended September 30, 2007 with the same period of 2006, the average daily balance of time deposits, which pay a higher rate of interest compared to demand deposit and transaction accounts, increased $82.6 million, primarily as a result of increases in brokered time deposits and certificates of deposit of $100,000 or more. The rate paid on time deposit accounts increased 61 basis points to 5.1% for the nine-month period ended September 30, 2007, versus the same period in 2006. During the third quarter of 2007, the average daily balance of time deposits increased $18.5 million, and the rate paid increased 31 basis points to 5.1%, versus the third quarter of 2006.

Due to strong loan growth and additional relationship opportunities, the Company continues to focus on public fund deposits as a core funding strategy. In addition, the Company has introduced brokered certificates of deposit to the funding mix as a result of loan growth. On an average daily basis, total brokered certificates of deposit increased $25.7 million to $80.9 million for the nine-month period ended September 30, 2007, versus $55.2 million for the same period in 2006. During the third quarter of 2007, average daily brokered certificates of deposit were $107.2 million, versus $44.9 million during the third quarter of 2006. On an average daily basis, total public fund certificates of deposit decreased $15.8 million to $252.0 million for the nine-month period ended September 30, 2007, versus $267.8 million for the same period in 2006. During the third quarter of 2007, average daily public fund certificates of deposit were $187.2 million, versus $296.9 million during the third quarter of 2006.

Average daily balances of borrowings were $195.8 million during the nine months ended September 30, 2007, versus $181.4 million during the same period of 2006, and the rate paid on borrowings increased 24 basis points to 4.9%. The increase was driven by a $25.3 million increase in securities sold under agreements to repurchase, and the rate paid on repurchase agreements increased 43 basis points to 3.60%. During the third quarter of 2007 the average daily balances of borrowings increased $57.6 million to $211.8 million, and the rate paid on borrowings increased 17 basis points to 4.9%, versus the third quarter of 2006. On an average daily basis, total deposits (including demand deposits) and purchased funds increased 7.4%, when comparing the both nine-month and three-month periods ended September 30, 2007 versus the same periods in 2006. The following tables set forth consolidated information regarding average balances and rates:

DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY;
INTEREST RATES AND INTEREST DIFFERENTIAL
(in thousands of dollars)

	Nine Months Ended September 30, 2007				2006			
	Average Balance	Interest Income	Yield (1)		Average Balance	Interest Income	Yield (1)	
ASSETS								
Earning assets:								
Loans:								
Taxable (2)(3)	$ 1,381,397	$ 76,623	7.42	%	$ 1,243,736	$ 67,137	7.22	%
Tax exempt (1)	2,784	133	6.41		5,958	245	5.50	
Investments: (1)								
Available for sale	299,912	11,014	4.91		292,298	10,057	4.60	
Short-term investments	15,928	619	5.20		10,608	392	4.94	
Interest bearing deposits	1,480	52	4.70		3,268	112	4.58	
Total earning assets	1,701,501	88,441	6.95	%	1,555,868	77,943	6.70	%
Nonearning assets:								
Cash and due from banks	44,153	0			58,854	0		
Premises and equipment	25,707	0			24,597	0		
Other nonearning assets	52,952	0			50,367	0		
Less allowance for loan losses	(14,971)	0			(13,453)	0		
Total assets	$ 1,809,342	$ 88,441			$ 1,676,233	$ 77,943		

(1) Tax exempt income was converted to a fully taxable equivalent basis at a 35 percent tax rate for 2007 and 2006. The tax equivalent rate for tax exempt loans and tax exempt securities included the TEFRA adjustment applicable to nondeductible interest expenses.
(2) Loan fees, which are immaterial in relation to total taxable loan interest income for the nine months ended September 30, 2007 and 2006, are included as taxable loan interest income.
(3) Nonaccrual loans are included in the average balance of taxable loans.

DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY;
INTEREST RATES AND INTEREST DIFFERENTIAL (Cont.)
(in thousands of dollars)

	Nine Months Ended September 30, 2007			2006		
	Average Balance	Interest Expense	Yield	Average Balance	Interest Expense	Yield
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest bearing liabilities:						
Savings deposits	$ 67,414	$ 104	0.21 %	$ 68,426	$ 108	0.21 %
Interest bearing checking accounts	403,867	10,621	3.52	389,657	8,715	2.99
Time deposits:						
In denominations under $100,000	290,449	10,475	4.82	260,771	7,697	3.95
In denominations over $100,000	476,002	18,871	5.30	423,089	15,355	4.85
Miscellaneous short-term borrowings	164,845	5,130	4.16	150,434	4,363	3.88
Long-term borrowings	30,972	1,909	8.24	30,973	1,877	8.10
Total interest bearing liabilities	1,433,549	47,110	4.39 %	1,323,350	38,115	3.85 %
Noninterest bearing liabilities and stockholders' equity:						
Demand deposits	224,341	0		219,925	0	
Other liabilities	15,767	0		13,340	0	
Stockholders' equity	135,685	0		119,618	0	
Total liabilities and stockholders' equity	$ 1,809,342	$ 47,110		$ 1,676,233	$ 38,115	
Net interest differential - yield on average daily earning assets		$ 41,331	3.24 %		$ 39,828	3.42 %

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DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY;
INTEREST RATES AND INTEREST DIFFERENTIAL
(in thousands of dollars)

	Three Months Ended September 30, 2007				2006			
	Average Balance	Interest Income	Yield (1)		Average Balance	Interest Income	Yield (1)	
ASSETS								
Earning assets:								
Loans:								
Taxable (2)(3)	$ 1,410,187	$ 26,176	7.36	%	$ 1,283,130	$ 24,000	7.42	%
Tax exempt (1)	2,099	39	7.30		6,264	88	5.57	
Investments: (1)								
Available for sale	304,479	3,791	4.94		292,938	3,315	4.49	
Short-term investments	27,138	348	5.09		8,474	110	5.15	
Interest bearing deposits	1,455	17	4.64		3,727	47	5.00	
Total earning assets	1,745,358	30,371	6.90	%	1,594,533			