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MAIN STREET TRUST INC
Form 10-Q
November 08, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2006

Commission File Number: 0-30031

MAIN STREET TRUST, INC.

(Exact name of Registrant as specified in its charter)

Illinois

37-1338484

(State or other jurisdiction
of incorporation or organization)

(I.R.S. Employer Identification
Number)

100 West University, Champaign, Illinois 61820

(Address of principal executive offices) (Zip Code)

(217) 351-6500

(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 Exchange Act Rule 12b-2).

Yes No X
----- -----

Indicate the number of shares outstanding of the registrant's common stock, as of November 2, 2006:

Main Street Trust, Inc. Common Stock 10,046,079

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MAIN STREET TRUST, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
September 30, 2006 and December 31, 2005
(Unaudited, in thousands, except share data)

September 30, December 31,
 2006 2005

ASSETS

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Cash and due from banks	\$ 53,431	\$ 52,007
Federal funds sold and interest bearing deposits	5,878	42,059
	-----	-----
Cash and cash equivalents	59,309	94,066
	-----	-----
Investments in debt and equity securities:		
Available-for-sale, at fair value	338,822	343,087
Held-to-maturity, at cost (fair value of \$74,440 and \$75,665 at September 30, 2006 and December 31, 2005, respectively) .	75,412	76,542
Non-marketable equity securities	16,988	24,994
	-----	-----
Total investments in debt and equity securities	431,222	444,623
	-----	-----
Loans, net of allowance for loan losses of \$14,233 and \$13,472 at September 30, 2006 and December 31, 2005, respectively	980,499	1,002,927
Mortgage loans held for sale	1,912	1,661
Premises and equipment	22,402	23,047
Goodwill	20,736	20,736
Core deposit intangibles	3,916	4,569
Accrued interest receivable	11,359	8,461
Other assets	26,795	25,047
	-----	-----
Total assets	\$ 1,558,150	\$ 1,625,137
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing	\$ 214,217	\$ 240,823
Interest bearing	1,036,930	1,035,149
	-----	-----
Total deposits	1,251,147	1,275,972
	-----	-----
Federal funds purchased, repurchase agreements and notes payable	110,956	118,452
Federal Home Loan Bank advances and other borrowings	29,574	67,386
Accrued interest payable	4,893	4,657
Other liabilities	13,377	14,901
	-----	-----
Total liabilities	1,409,947	1,481,368
	-----	-----
Commitments and contingencies (See Note 5)		
Shareholders' equity:		
Preferred stock, no par value; 2,000,000 shares authorized ..	--	--
Common stock, \$0.01 par value; 15,000,000 shares authorized; 11,219,319 shares issued	112	112
Paid in capital	55,909	55,189
Retained earnings	126,979	120,238
Accumulated other comprehensive loss	(1,389)	(1,597)
	-----	-----
Total shareholders' equity	181,611	173,942
	-----	-----
Less: treasury stock, at cost, 1,173,240 and 1,072,644 shares at September 30, 2006 and December 31, 2005, respectively ..	(33,408)	(30,173)
	-----	-----
Total shareholders' equity	148,203	143,769
	-----	-----
Total liabilities and shareholders' equity	\$ 1,558,150	\$ 1,625,137
	=====	=====

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See accompanying notes to unaudited consolidated financial statements.

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MAIN STREET TRUST, INC. AND SUBSIDIARIES
 Consolidated Statements of Income
 For the Nine Months Ended September 30, 2006 and 2005
 (Unaudited, in thousands, except share data)

	2006	2005
Interest income:		
Loans and fees on loans	\$ 52,207	\$ 43,961
Investments in debt and equity securities:		
Taxable	13,321	9,269
Tax-exempt	906	1,156
Federal funds sold and interest bearing deposits	965	1,252
Total interest income	67,399	55,638
Interest expense:		
Deposits	24,389	14,871
Federal funds purchased, repurchase agreements and notes payable	4,064	2,128
Federal Home Loan Bank advances and other borrowings	1,746	1,985
Total interest expense	30,199	18,984
Net interest income	37,200	36,654
Provision for loan losses	1,350	1,080
Net interest income after provision for loan losses	35,850	35,574
Non-interest income:		
Remittance processing	5,366	5,144
Trust and brokerage fees	5,944	5,805
Service charges on deposit accounts	2,061	2,129
Securities transactions, net	279	(450)
Gain on sales of mortgage loans, net	442	726
Other	2,420	2,017
Total non-interest income	16,512	15,371
Non-interest expense:		
Salaries and employee benefits	17,693	17,325
Occupancy	2,322	2,293
Equipment	1,862	1,955
Data processing	2,278	1,669
Office supplies	892	906
Service charges from correspondent banks	214	389
Amortization of core deposit intangibles	653	435
Other	4,855	4,342
Total non-interest expense	30,769	29,314
Income before income taxes	21,593	21,631
Income taxes	7,425	7,820
Net income	\$ 14,168	\$ 13,811

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Per share data:		
Basic earnings per share	\$ 1.40	\$ 1.38
Weighted average shares of common stock outstanding	10,114,614	10,014,234
Diluted earnings per share	\$ 1.39	\$ 1.37
Weighted average shares of common stock and dilutive potential common shares outstanding	10,224,308	10,111,588

See accompanying notes to unaudited consolidated financial statements.

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MAIN STREET TRUST, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
For the Nine Months Ended September 30, 2006 and 2005
(Unaudited, in thousands)

	2006	2005
	-----	-----
Net income	\$ 14,168	\$ 13,811
Other comprehensive income (loss), before tax:		
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) arising during period, net of tax of \$251 and (\$975), for September 30, 2006 and 2005, respectively	375	(1,462)
Less: reclassification adjustment for gains (losses) included in net income, net of tax of (\$112) and \$180, for September 30, 2006 and 2005, respectively	(167)	270
Other comprehensive income (loss), before tax:	208	(1,192)
Comprehensive income	\$ 14,376	\$ 12,619
	=====	=====

See accompanying notes to unaudited consolidated financial statements.

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MAIN STREET TRUST, INC. AND SUBSIDIARIES
Consolidated Statements of Income
For the Three Months Ended September 30, 2006 and 2005
(Unaudited, in thousands, except share data)

	2006	2005
	-----	-----
Interest income:		
Loans and fees on loans	\$ 18,056	\$ 16,643
Investments in debt and equity securities		
Taxable	4,635	3,664
Tax-exempt	284	370
Federal funds sold and interest bearing deposits	268	439

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Total interest income	23,243	21,116
Interest expense:		
Deposits	8,769	5,868
Federal funds purchased, repurchase agreements and notes payable	1,467	870
Federal Home Loan Bank advances and other borrowings	484	812
Total interest expense	10,720	7,550
Net interest income	12,523	13,566
Provision for loan losses	450	450
Net interest income after provision for loan losses	12,073	13,116
Non-interest income:		
Remittance processing	1,863	1,741
Trust and brokerage fees	2,042	2,153
Service charges on deposit accounts	670	820
Securities transactions, net	--	(485)
Gain on sales of mortgage loans, net	166	329
Other	747	740
Total non-interest income	5,488	5,298
Non-interest expense:		
Salaries and employee benefits	6,008	6,097
Occupancy	747	824
Equipment	619	674
Data processing	821	566
Office supplies	295	319
Service charges from correspondent banks	68	134
Amortization of core deposit intangibles	218	217
Other	1,646	1,480
Total non-interest expense	10,422	10,311
Income before income taxes	7,139	8,103
Income taxes	2,460	2,952
Net income	\$ 4,679	\$ 5,151
Per share data:		
Basic earnings per share	\$ 0.46	\$ 0.50
Weighted average shares of common stock outstanding	10,076,548	10,248,453
Diluted earnings per share	\$ 0.46	\$ 0.50
Weighted average shares of common stock and dilutive potential common shares outstanding	10,189,861	10,341,647

See accompanying notes to unaudited consolidated financial statements.

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	2006	2005
	-----	-----
Net income	\$ 4,679	\$ 5,151
Other comprehensive income (loss), before tax:		
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) arising during period, net of tax of \$978 and (\$497) for September 30, 2006 and 2005, respectively	1,465	(745)
Less: reclassification adjustment for gains (losses) included in net income, net of tax of \$0 and \$194, for September 30, 2006 and 2005, respectively	--	291
Other comprehensive income (loss)	1,465	(454)
Comprehensive income	\$ 6,144	\$ 4,697
	=====	=====

See accompanying notes to unaudited consolidated financial statements.

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MAIN STREET TRUST, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2006 and 2005
(Unaudited, in thousands)

	2006	2005
	-----	-----
Cash flows from operating activities:		
Net income	\$ 14,168	\$ 13,811
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization - fixed assets	1,930	1,901
Amortization of bond premiums and accretion of discounts, net	413	952
Amortization of core deposit intangibles	653	435
Provision for loan losses	1,350	1,080
Securities transactions, net	(279)	450
Federal Home Loan Bank stock dividend	--	(597)
Undistributed loss (gain) from non-marketable equity securities ...	(111)	(1,585)
Gain on sales of mortgage loans, net	(442)	(726)
Proceeds from sales of mortgage loans originated for sale	38,642	55,397
Mortgage loans originated for sale	(38,451)	(55,357)
Stock based compensation plan expense	483	--
Excess tax benefit- stock based compensation plan	(238)	--
Other, net:		
Increase in accrued interest receivable	(2,898)	(1,016)
Increase in other assets	(947)	(403)
(Decrease) increase in other liabilities	(1,501)	199
Increase in accrued interest payable	236	933
Net cash provided by operating activities	13,008	15,474
	-----	-----
Cash flows from investing activities:		
Net decrease (increase) in loans	20,374	(12,564)
Proceeds from maturities and calls of investments in debt securities:		

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Held-to-maturity	15,068	5,532
Available-for-sale	45,765	127,750
Proceeds from sales of investments:		
Available-for-sale	3,495	56,245
Purchases of investments in debt and equity securities:		
Held-to-maturity	(17,967)	(13,779)
Available-for-sale	(48,360)	(133,367)
Other equity securities	(850)	(685)
Principal paydowns from mortgage-backed securities:		
Held-to-maturity	3,778	8,032
Available-for-sale	3,830	11,655
Return of principal on other equity securities	1,570	1,800
Proceeds from redemption of non-marketable equity securities	7,397	--
Purchases of premises and equipment	(1,285)	(1,185)
Acquisition of Citizens First Financial Corporation	--	(6,385)
	-----	-----
Net cash provided by investing activities	32,815	43,049
	-----	-----
Cash flows from financing activities:		
Net decrease in deposits	(24,825)	(24,840)
Net (decrease) increase in federal funds purchased, repurchase agreements, and notes payable	(7,496)	20,230
Advances from Federal Home Loan Bank and other borrowings	1,000	34,500
Payments on Federal Home Loan Bank and other borrowings	(38,812)	(30,499)
Cash dividends paid	(6,987)	(6,421)
Excess tax benefit- stock based compensation plan	238	--
MSTI stock transactions, net	(3,698)	(3,576)
	-----	-----
Net cash used by financing activities	(80,580)	(10,606)
	-----	-----
Net decrease in cash and cash equivalents	(34,757)	47,917
	-----	-----
Cash and cash equivalents at beginning of year	94,066	64,928
	-----	-----
Cash and cash equivalents at end of period	\$ 59,309	\$ 112,845
	=====	=====

See accompanying notes to unaudited consolidated financial statements.

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Supplemental disclosure of cash flow information:

MAIN STREET TRUST, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2006 and 2005
(Unaudited, in thousands)

	2006	2005
	-----	-----
Cash paid during the year for:		
Interest	\$ 29,963	\$ 18,051
Income taxes	9,919	7,145
Real estate acquired through or in lieu of foreclosure	704	--
Dividends declared not paid	2,311	2,250
Acquisition of Citizens First Financial Corporation:		
Stock issued	--	27,804
Cash paid	--	28,416

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Capitalized expenses	--	621
Total cost of acquisition	--	56,841
Assets acquired:		
Cash and due from banks	--	6,022
Federal funds sold and interest bearing deposits ...	--	16,630
Cash and cash equivalents	--	22,652
Investments in debt and equity securities:		
Available-for-sale, at fair value	--	23,865
Non-marketable equity securities	--	16,374
Loans, net of allowance for loan losses	--	228,114
Mortgage loans held for sale	--	282
Premises and equipment	--	5,993
Accrued interest receivable	--	1,571
Goodwill	--	20,736
Core deposit intangibles	--	5,222
Other assets	--	6,174
Liabilities assumed:		
Deposits	--	(232,089)
Federal Home Loan Bank advances and other borrowings	--	(37,599)
Accrued interest payable	--	(193)
Other liabilities	--	(4,261)
Net assets acquired	--	56,841

See accompanying notes to unaudited consolidated financial statements.

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MAIN STREET TRUST, INC. AND SUBSIDIARIES Notes to Unaudited Consolidated Financial Statements

Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements for Main Street Trust, Inc., have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all information and footnotes necessary for fair presentation of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the audited consolidated financial statements and related notes as of and for the year ended December 31, 2005, and schedules in the Main Street Trust, Inc.'s Form 10-K filed on March 16, 2006.

In the opinion of management, the consolidated financial statements of Main Street Trust, Inc. and its subsidiaries, as of September 30, 2006 and for the three-month and nine-month periods ended September 30, 2006 and 2005, include all adjustments necessary for a fair presentation of the results of those periods. All such adjustments, outside of those related to the business combination discussed in Note 2, are of a normal recurring nature.

Results of operations for the three-month and nine-month periods ended September 30, 2006 are not necessarily indicative of the results which may be expected for the year ending December 31, 2006.

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and due from banks and federal funds sold and interest

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bearing deposits. Generally, federal funds are sold for one-day periods.

Certain amounts in the 2005 consolidated financial statements have been reclassified to conform with the 2006 presentation. Such reclassifications have no effect on previously reported net income or shareholders' equity.

Note 2. Company Information/Business Combination

Main Street Trust, Inc. (the "Company"), an Illinois corporation, is a bank holding company registered under the Bank Holding Company Act of 1956, as amended. The Company was incorporated on August 12, 1999, and is the parent company of Main Street Bank & Trust (the "Bank") and FirstTech, Inc. On June 14, 2001, the Company was certified by the Board of Governors of the Federal Reserve System as a financial holding company. This designation allows the Company to engage in a wider range of nonbanking activities, including greater authority to engage in securities and insurance activities.

On April 1, 2005, the Company acquired all of the outstanding stock of Citizens First Financial Corp. ("Citizens"), which was the parent company of Citizens Savings Bank, based in Bloomington, Illinois. The transaction has been accounted for as a purchase. Assets and liabilities related to the acquisition of Citizens are reported as of the April 2005 acquisition date. Results of operations of Citizens since the acquisition date have been included in the Company's consolidated financial statements. The Company merged Citizens Savings Bank into the Bank as of the close of business on October 7, 2005. The Citizens acquisition purchase price of approximately \$56.841 million was allocated based upon the fair value of the assets and liabilities acquired. The Citizens excess purchase price has been allocated to goodwill and identifiable intangible assets. \$20.736 million was allocated to goodwill. \$5.222 million was allocated to core deposit intangibles at acquisition and is being amortized over a period of six years.

Pro forma unaudited operating results for the nine months ended September 30, 2005, giving effect to the Citizens acquisition as if it had occurred as of January 1, 2005 are as follows:

	2005
	(in thousands, except per share data)

Interest Income	\$59,806
Interest Expense	20,579
Net Income	13,800
Basic EPS	1.38
Diluted EPS	1.36

These unaudited pro forma results have been prepared for comparative purposes only and include certain adjustments, such as additional amortization expense on revalued purchased assets and implied interest on additional borrowings to fund the acquisition. In addition, 2005 merger related expenses were reallocated to a period prior to the pro forma dates presented. All adjustments were tax affected. They do not purport to be indicative of the results of operations that actually would have resulted had the combination occurred on January 1, 2005 or of future results of operations of the consolidated entities.

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On September 21, 2006, the Company announced its intent to merge with First Busey Corporation in Urbana, Illinois. The combined company will operate under the name First Busey Corporation and will list its common stock on the Nasdaq Global Select Market and trade under the symbol BUSE. Under terms of the agreement, Main Street shareholders will receive shares of First Busey common stock, using a fixed exchange ratio of 1.55 shares of First Busey common stock for each share of Main Street common stock. The merger is subject to regulatory approval, as well as approval by First Busey and Main Street shareholders and other customary conditions. The transaction is expected to be completed during the first half of 2007. The combined company, First Busey Corporation, will have total assets of approximately \$4.1 billion. Following the merger of the two holding companies, it will be their intent to merge their Illinois-based banking subsidiaries, Busey Bank and Main Street Bank & Trust. The two banks will be merged under Busey Bank's state charter, and the bank name will remain Busey Bank. The merged bank will have total assets of approximately \$3.6 billion and total deposits exceeding \$2.7 billion. Wealth management assets under care for the combined organization will be approximately \$4.5 billion.

Note 3. Income per Share

Net income per common share has been computed as follows:

	Nine Months Ended September 30,		Three Months September	
	2006	2005	2006	2005
Net Income	\$14,168,000	\$13,811,000	\$ 4,679,000	\$ 5,111,000
Shares				
Weighted average common shares outstanding	10,114,614	10,014,234	10,076,548	10,214,567
Dilutive effect of outstanding options, as determined by the application of the treasury stock method	109,694	97,354	113,313	113,313
Weighted average common shares outstanding, as adjusted	10,224,308	10,111,588	10,189,861	10,327,880
Basic earnings per share	\$ 1.40	\$ 1.38	\$ 0.46	\$ 0.49
Diluted earnings per share	\$ 1.39	\$ 1.37	\$ 0.46	\$ 0.49

Note 4. Stock Option Plans

At September 30, 2006, the Company had one share-based compensation plan. Prior to January 1, 2006, the Company accounted for that plan under the recognition and measurement provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, as permitted by FASB Statement No. 123, Accounting for Stock-Based Compensation. No stock-based compensation cost was recognized in the Statement of Income for the period ended September 30, 2005, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of grant. Effective January 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123(R), Share-Based Payment, using the modified-prospective-transition method. Under that transition method, compensation cost recognized in 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value

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estimated in accordance with the original provisions of Statement 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of Statement 123(R). Results for prior periods have not been restated.

As a result of adopting Statement 123(R) on January 1, 2006, the Company's income before income taxes and net income for the nine months ended September 30, 2006, were \$483,000 and \$290,000 lower, respectively, than if it had continued to account for share-based compensation under APB Opinion No. 25. Basic and diluted earnings per share for the nine months ended September 30, 2006 would have been \$1.43 and \$1.41, respectively, if the Company had not adopted Statement 123(R), compared to reported basic and diluted earnings per share of \$1.40 and \$1.39, respectively.

Prior to adoption of Statement 123(R), the Company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Statement of Cash Flows. Statement 123(R) requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. The \$238,000 excess tax benefit classified as a financing cash inflow would have been classified as an operating cash inflow if the Company had not adopted Statement 123(R).

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The following table illustrates the effect on net income (in thousands) and earnings per share if the Company had applied the fair value recognition provisions of Statement 123 to options granted under the Company's stock option plan in all periods presented. For purposes of this pro forma disclosure, the value of the options is estimated using a Black-Scholes option-pricing formula and amortized over the options' vesting periods.

	Nine Months Ended	Three Months Ended
	September 30, 2005	September 30, 2005
	-----	-----
Net income on common stock:		
As reported	\$ 13,811	\$ 5,151
Deduct total stock-based compensation expense determined under the fair value method for all awards, net of related tax effects	(274)	(92)
	-----	-----
Pro forma	\$ 13,537	\$ 5,059
	=====	=====
Basic earnings per share:		
As reported	\$ 1.38	\$ 0.50
Pro forma	1.35	0.49
Diluted earnings per share:		
As reported	\$ 1.37	\$ 0.50
Pro forma	1.34	0.49

The Main Street Trust, Inc. 2000 Stock Incentive Plan (the "Plan"), which is

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shareholder-approved, permits the grant of options for up to 2,205,000 shares of the Company's common stock. The Board of Directors, or a committee appointed by the Board, may issue options that constitute incentive stock options to officers and employees and nonqualified options to directors, officers, employees, consultants and advisors of the Company and its related corporations (provided that such consultants and advisors render bona fide services not in connection with the offer and sale of securities in a capital-raising transaction). Restricted stock and stock appreciation rights ("SARs") may also be granted. SARs may be granted separately or in tandem with or by reference to an option granted prior to or simultaneously with the grant of such rights, to such eligible directors, officers, employees, consultants and advisors as may be selected by the Board of Directors. The Plan is intended to provide a means whereby directors, officers, employees, consultants and advisors of the Company and its related corporations may sustain a sense of proprietorship and personal involvement in the continued development and financial success of the Company and its related corporations, and to encourage them to remain with and devote their best efforts to the business of the Company and its related corporations, thereby advancing the interests of the Company and its shareholders. Grants under the Plan to date have been nonqualified options granted to directors and officers. Options granted under the Plan have an exercise price equal to market value of the underlying common stock on the grant date. Existing director options granted prior to 2003 are fully vested and exercisable on the date granted while director options granted in or after 2003 vest ratably over a one-year period from the date granted. Existing officer options vest ratably over a three-year period from the date granted. All outstanding options have a 10 year contractual life. Dividends are not paid on unexercised options. In the event of a change of control, options and SARs become immediately and fully exercisable.

The Company uses the Black-Scholes option pricing model to estimate the fair value of stock-based awards with the following weighted-average assumptions for the indicated periods:

	Nine Months Ended September 30,	
	2006	2005

Number of options granted	150,500	137,500
Risk-free interest rate	4.59% - 4.65%	3.83% - 4.08%
Expected life, in years	6.50 - 8.00	7.00 - 8.00
Expected volatility	14.28%	15.05% - 15.42%
Expected dividend yield	3.06%	2.97% - 3.06%

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Expected volatilities are based on historical volatility of the Company's stock. The Company uses historical data to estimate option exercises and terminations (turnover percentage) within the valuation model. The expected term of options granted is derived from the output of the options valuation model which uses historical data and represents the period of time that options granted are expected to be outstanding. Expected turnover percentage and expected term are estimated separately for directors and officers. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury Strips as of the grant date.

A summary of option activity under the Plan as of September 30, 2006, and

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changes since January 1, 2006 is presented below:

	Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life	Aggregate Intrinsic Value (\$000)
Outstanding as of January 1, 2006	767,413	\$ 23.46		
Granted	150,500	30.10		
Exercised	62,177	20.80		
Forfeited or expired	5,214	30.02		
<hr/>				
Outstanding at September 30, 2006	850,522	24.80	6.6	\$ 8,205
<hr/>				
Vested at September 30, 2006	692,010	23.61	6.1	\$ 7,499
<hr/>				
Exercisable at September 30, 2006	692,010	23.61	6.1	\$ 7,499
<hr/>				

The weighted-average grant-date fair value of options granted during the first nine months of 2006 and 2005 was \$4.79 and \$4.71, respectively. The total intrinsic value of options exercised during the first nine months of 2006 and 2005 was \$595,000 and \$235,000, respectively. The fair value of nonvested shares is determined based on the market price of the Company's shares on the grant date.

A summary of the status of the Company's nonvested shares as of September 30, 2006 and changes since January 1, 2006 is presented below:

Nonvested Shares	Shares	Weighted- Average Grant-Date Fair Value
Nonvested at January 1, 2006	112,950	\$ 4.83
Granted	150,500	4.79
Vested	100,754	4.89
Forfeited	4,184	4.74
<hr/>		
Nonvested at September 30, 2006	158,512	\$ 4.76
<hr/>		

As of September 30, 2006, there was \$710,000 of total unrecognized compensation cost related to nonvested stock option compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 1.7 years. The weighted average grant date fair value of shares vested during the nine month periods ended September 30, 2006 and 2005 was \$4.89 and \$4.69, respectively.

Note 5. Commitments and Financial Instruments

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The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the consolidated balance sheets. The contractual amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

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The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. Management does not anticipate any significant losses as a result of these transactions.

The following table summarizes these financial instruments and commitments (in thousands) at September 30, 2006 and 2005:

	September 30, 2006	2005
	-----	-----
Financial instruments whose contract amounts represent credit risk:		
Commitments	\$326,764	\$272,011
Standby letters of credit	29,289	29,685

The majority of commitments are agreements to extend credit to a customer as long as there is no violation of any condition established in the contract. Commitments, principally variable interest rates, generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. For commitments to extend credit, the Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies, but may include accounts receivable; inventory; property, plant and equipment; and income-producing commercial properties. Also included in commitments at September 30, 2006 is \$4.230 million to purchase other equity securities and \$1.962 million for construction of new branches.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements and, generally, have terms of one year or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank may hold collateral, which include accounts receivables, inventory, property and equipment, and income producing properties, supporting those commitments, if deemed necessary. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Bank would be required to fund the commitment. The maximum potential amount of future payments the Bank could be required to make is represented by

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the contractual amount shown in the summary above. If the commitment is funded, the Bank would be entitled to seek recovery from the customer. At September 30, 2006 and 2005, no amounts had been recorded as liabilities for the Bank's potential obligations under these guarantees.

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

Financial Condition

Assets and Liabilities

Total assets decreased \$66.987 million, or 4.1%, to \$1.558 billion at September 30, 2006 compared to \$1.625 billion at December 31, 2005. Decreases in federal funds sold and interest bearing deposits, loans, investments in debt and equity securities, core deposit intangibles and premises and equipment were partially offset by increases in accrued interest receivable, other assets, cash and due from banks, and mortgage loans held for sale.

Cash and due from banks increased \$1.424 million, or 2.7%, to \$53.431 million at September 30, 2006 compared to \$52.007 million at December 31, 2005.

Federal funds sold and interest bearing deposits decreased \$36.181 million, or 86.0%, to \$5.878 million at September 30, 2006 compared to \$42.059 million at December 31, 2005. Federal funds sold and interest bearing deposits fluctuate with loan demand, deposit volume and investment opportunities. During 2006, the Company used available funds to reduce Federal Home Loan Bank advances and other borrowings.

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Total investments in debt and equity securities decreased \$13.401 million, or 3.0%, to \$431.222 million at September 30, 2006 compared to \$444.623 million at December 31, 2005. Included in the change were decreases of \$8.006 million, or 32.0%, in investments in non-marketable equity securities, \$4.265 million, or 1.2%, in investments in securities available-for-sale and \$1.130 million, or 1.5%, in securities held-to-maturity. In response to the FHLB's decision to allow redemption of excess capital stock owned by member banks, the Company sold \$7.397 million of FHLB stock, which was classified as non-marketable equity securities, during the second quarter of 2006. The Company will evaluate the feasibility of any redemption the FHLB may offer in the future. Investments fluctuate with loan demand, deposit volume, and investment opportunities.

Loans, net of allowance for loan losses, decreased \$22.428 million, or 2.2%, to \$980.499 million at September 30, 2006 compared to \$1.003 billion at December 31, 2005. Included in the changes were decreases of \$12.593 million, or 3.9%, in commercial, financial and agricultural loans; \$8.206 million, or 5.8%, in residential real estate loans; and \$7.337 million, or 8.5%, in installment and consumer loans, offset somewhat by an increase of \$6.469 million, or 1.4%, in commercial real estate loans. Management attributes the decrease in loans to the Company's unwillingness to meet some of the underwriting and pricing available in the market. Included in the \$6.469 million increase in commercial real estate loans was a \$15.826 million decrease related to one commercial project that was refinanced through a real estate conduit during the first quarter of 2006. Additionally, the Company has seen a slowdown in the residential real estate market during the first nine months of 2006 compared to the same period in 2005.

Mortgage loans held for sale increased \$251,000, or 15.1%, to \$1.912 million at September 30, 2006 compared to \$1.661 million at December 31, 2005.

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Premises and equipment decreased \$645,000, or 2.8%, to \$22.402 million at September 30, 2006 compared to \$23.047 million at December 31, 2005. The decrease included depreciation and amortization expense on fixed assets of \$1.930 million offset somewhat by purchases of \$1.285 million.

Core deposit intangibles decreased \$653,000, or 14.3%, to \$3.916 million at September 30, 2006 compared to \$4.569 million at December 31, 2005 due to amortization related to the acquisition of Citizens in 2005.

Total liabilities decreased \$71.421 million, or 4.8%, to \$1.410 billion at September 30, 2006 compared to \$1.481 billion at December 31, 2005. There were decreases in all categories of liabilities, except interest bearing deposits and accrued interest payable.

Total deposits decreased \$24.825 million, or 1.9%, to \$1.251 billion at September 30, 2006 from \$1.276 billion at December 31, 2005. Non-interest bearing deposits decreased \$26.606 million, or 11.0%, to \$214.217 million at September 30, 2006 from \$240.823 million at December 31, 2005. The decrease of \$26.606 million in non-interest bearing deposits included a \$16.453 million decrease in the balance of one account between December 31, 2005 and September 30, 2006. Interest bearing deposits increased \$1.781 million, or 0.2%, to \$1.037 billion at September 30, 2006 from \$1.035 billion at December 31, 2005.

Federal funds purchased, repurchase agreements and notes payable decreased \$7.496 million, or 6.3%, to \$110.956 million at September 30, 2006 from \$118.452 million at December 31, 2005. This change was primarily due to decreases of \$4.396 million in repurchase agreements and \$3.100 million in federal funds purchased.

Federal Home Loan Bank advances and other borrowings decreased \$37.812 million, or 56.1%, to \$29.574 million at September 30, 2006 compared to \$67.386 million at December 31, 2005 primarily due to \$34.000 million of matured FHLB advances and a net decrease of \$3.500 million on a line of credit from a correspondent bank.

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Investment Securities

The carrying value of investments in debt and equity securities was as follows for September 30, 2006 and December 31, 2005:

Carrying Value of Securities(1) (in thousands)	September 30, 2006	December 31, 2005
	-----	-----
Available-for-sale:		
Federal agencies	\$313,976	\$312,484
Mortgage-backed securities	9,689	13,657
State and municipal	12,190	13,834
Marketable equity securities	2,967	3,112
	-----	-----
Total available-for-sale	\$338,822	\$343,087
	=====	=====
Held-to-maturity:		
Federal agencies	\$ 27,597	\$ 38,650

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Mortgage-backed securities	30,534	17,091
State and municipal	17,281	20,801
	-----	-----
Total held-to-maturity	\$ 75,412	\$ 76,542
	=====	=====
Non-marketable equity securities:		
Federal Home Loan Bank stock	\$ 14,053	\$ 21,450
Other equity investments	2,935	3,544
	-----	-----
Total non-marketable equity securities	\$ 16,988	\$ 24,994
	=====	=====
Total investment securities	\$431,222	\$444,623
	=====	=====

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The following table shows the maturities and weighted-average yields of investment securities at September 30, 2006. All securities are shown at their contractual maturity.

Maturities and Weighted Average Yields of Debt Securities
(dollars in thousands)
September 30, 2006

	1 year or less		1 to 5 years		5 to 10 years		Ove ye
	Amount	Rate	Amount	Rate	Amount	Rate	Am

Securities available-for sale:							
Federal agencies	\$110,260	3.48%	\$203,716	3.99%	\$ --	--	\$
Mortgage-backed securities(1)	\$ 2,087	3.85%	\$ 3,478	5.69%	\$ 4,007	5.11%	\$
State and municipal (TE) (2)	\$ 4,027	5.39%	\$ 7,496	6.64%	\$ 667	7.62%	\$
Marketable equity securities(3) ..	\$ --		\$ --	--	\$ --	--	\$

Total	\$116,374		\$214,690		\$ 4,674		\$

Average Yield (TE) (2)		3.56%		4.11%		5.47%	
	=====						
Securities held-to-maturity:							
Federal agencies	\$ 6,425	3.07%	\$ 16,947	3.01%	\$ 4,225	4.07%	\$
Mortgage-backed securities(1)	\$ 1,939	2.94%	\$ 28,056	5.31%	\$ 481	5.17%	\$
State and municipal (TE) (2)	\$ 10,165	5.42%	\$ 6,796	5.76%	\$ 200	7.53%	\$

Total	\$ 18,529		\$ 51,799		\$ 4,906		\$

Average Yield (TE) (2)		4.35%		4.62%		4.31%	
	=====						
Non-marketable equity securities(3):							
Federal Home Loan Bank stock	\$ --	--	\$ --	--	\$ --	--	\$
Other equity investments	\$ --	--	\$ --	--	\$ --	--	\$

Total	\$ --	--	\$ --	--	\$ --	--	\$
	=====						

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Continuous gross unrealized losses of investments in debt and equity securities (in thousands) which are classified as temporary were as follows:

	Continuous unrealized losses existing for less than 12 months		Continuous unrealized losses existing greater than 12 months		
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Available-for-Sale:					
Federal agencies	\$142,349	\$ 478	\$160,637	\$ 2,097	\$302,9
Mortgage-backed securities	1,676	9	5,554	169	7,2
State and municipal	--	--	3,201	49	3,2
Subtotal, debt securities	\$144,025	\$ 487	\$169,392	\$ 2,315	\$313,4
Other	1,022	289	--	\$ --	1,0
Total temporarily impaired securities	\$145,047	\$ 776	\$169,392	\$ 2,315	\$314,4
Held-to-Maturity:					
Federal agencies	\$ --	\$ --	\$ 26,868	\$ 631	\$ 26,8
Mortgage-backed securities	17,087	203	9,806	228	26,8
State and municipal	634	1	7,161	47	7,7
Total temporarily impaired securities	\$ 17,721	\$ 204	\$ 43,835	\$ 906	\$ 61,5

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Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Effective for the period ended December 31, 2005, the Company modified its policy for evaluating investments for other-than-temporary impairment. Under its new policy, investments, other than debt security investments where the impairment is deemed to be due solely to interest rate movements, are assumed to be impaired and the impairment recognized through earnings no later than twelve months from the date the security was first impaired, unless there is "overwhelming evidence to the contrary." Under the policy, "overwhelming evidence to the contrary" is a rare instance, but might include, among other things, an announced sale soon after a reporting period where the price would cause an impairment to reverse. Further, under certain circumstances, including a bankruptcy, catastrophic event or other circumstances which cause the Company to determine, after analyzing the specific facts, that the decline in the fair value is other than temporary, the Company would recognize an other than temporary impairment write-down upon such occurrence or determination, and not wait twelve months from the time of the impairment.

For the period ended September 30, 2006, the \$2.315 million continuous unrealized loss greater than 12 months on available-for-sale securities was made up of 46 debt securities and was believed to be a temporary loss. None of the

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marketable equity securities available-for-sale had a continuous unrealized loss greater than 12 months. The \$906,000 continuous unrealized loss greater than 12 months on held-to-maturity securities was made up of 47 debt securities and was believed to be a temporary loss.

Unrealized losses on debt securities are generally due to changes in interest rates and, as such, are considered by the Company to be temporary. Because of the nature of U.S. Agency securities, most of which are single pay at maturity, and because the Company has the ability to hold these investments until the market value recovers, which may be maturity, the Company does not consider these investments to be other than temporarily impaired. Because the Company believes the decline in market value of mortgage-backed securities is attributable to changes in interest rates and not credit quality and because the Company has the ability to hold these investments until the market value recovers, the Company does not consider these investments to be other than temporarily impaired.

Loans

The following table presents the amounts and percentages of loans at September 30, 2006 and December 31, 2005 according to the categories of commercial, financial and agricultural; commercial real estate; residential real estate; and installment and consumer loans.

Amount of Loans Outstanding (dollars in thousands)				
	September 30, 2006		December 31, 2005	
	Amount	Percentage	Amount	Percentage
Commercial, financial and agricultural	\$ 307,268	30.89%	\$ 319,861	31.47%
Real Estate - Commercial	475,975	47.85%	469,506	46.19%
Real Estate - Residential	132,098	13.28%	140,304	13.81%
Installment and consumer	79,391	7.98%	86,728	8.53%
Total loans	\$ 994,732	100.00%	\$1,016,399	100.00%

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The balance of loans outstanding as of September 30, 2006 by maturity is shown in the following table:

Maturity of Loans Outstanding (dollars in thousands) June 30, 2006				
	1 year or less	1 to 5 years	Over 5 years	Total
Commercial, financial and agricultural	\$184,651	\$ 86,135	\$ 36,482	\$307,268
Real Estate - Commercial	132,640	225,387	117,948	475,975
Real Estate - Residential	10,915	32,260	88,923	132,098

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Installment and consumer	19,642	35,211	24,538	79,391

Total	\$347,848	\$378,993	\$267,891	\$994,732
	=====			
Percentage of total loans outstanding	34.97%	38.10%	26.93%	100.00%
	=====			

Capital

Total shareholders' equity increased \$4.434 million from December 31, 2005 to September 30, 2006. Treasury stock transactions were \$3.698 million, primarily due to purchases of treasury stock under the Company's stock repurchase plan offset somewhat by the exercise of stock options. Additional paid in capital increased \$720,000 as a result of applying the guidance of the new Financial Accounting Standard Board Statement (FASB) No. 123(R) which was adopted on January 1, 2006. The change in shareholders' equity is summarized as follows:

Shareholders' Equity (in thousands)

Shareholders' equity, December 31, 2005	\$ 143,769
Net income	14,168
Treasury stock transactions, net	(3,698)
Additional paid in capital transactions, net	720
Cash dividends declared	(6,964)
Other comprehensive income	208

Shareholders' equity, September 30, 2006	\$ 148,203
	=====

On September 20, 2006, the Board of Directors of the Company declared a quarterly cash dividend of \$0.23 per share of the Company's common stock. The dividend of \$2.311 million was paid on October 20, 2006, to holders of record on October 6, 2006.

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, banks must meet specific guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and the Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of September 30, 2006, that the Company and the Bank exceeded all capital adequacy requirements to which they are subject.

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As of September 30, 2006, the most recent notifications from primary regulatory agencies categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized", banks must maintain minimum total capital to risk-weighted assets, Tier I capital to risk-weighted assets, and Tier I capital to average assets ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's categories.

The Company's and the Bank's actual capital amounts and ratios are presented in the following table (in thousands):

	Actual		For capital adequacy purposes:		To be capitali
	Amount	Ratio	Amount	Ratio	prompt c action p
As of September 30, 2006:					
Total capital (to risk-weighted assets)					
Consolidated	\$140,429	12.3%	\$ 91,181	8.0%	N/A
Main Street Bank & Trust	\$130,361	11.8%	\$ 89,927	8.0%	\$112,409
Tier I capital (to risk-weighted assets)					
Consolidated	\$126,129	11.1%	\$ 45,591	4.0%	N/A
Main Street Bank & Trust	\$116,186	10.6%	\$ 44,964	4.0%	\$ 67,445
Tier I capital (to average assets)					
Consolidated	\$126,129	8.3%	\$ 60,942	4.0%	N/A
Main Street Bank & Trust	\$116,186	7.5%	\$ 60,680	4.0%	\$ 75,850

Interest Rate Sensitivity

The concept of interest rate sensitivity attempts to gauge exposure of the Company's net interest income to adverse changes in market driven interest rates by measuring the amount of interest-sensitive assets and interest-sensitive liabilities maturing or subject to repricing within a specified time period. Liquidity represents the ability of the Company to meet the day-to-day demands of deposit customers balanced by its investments of these deposits. The Company must also be prepared to fulfill the needs of credit customers for loans with various types of maturities and other financing arrangements. The Company monitors its interest rate sensitivity and liquidity through the use of static gap reports, which measure the difference between assets and liabilities maturing or repricing within specified time periods as well as financial forecasting/budgeting/reporting software packages.

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The following table presents the Company's interest rate sensitivity at various intervals at September 30, 2006:

Rate Sensitivity of Earning Assets and Interest Bearing Liabilities

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(dollars in thousands)

	1-30 Days	31-90 Days	91-180 Days	181-365 Days
Interest bearing assets:				
Federal funds sold and interest bearing deposits	\$ 5,878	\$ --	\$ --	\$ --
Debt and equity securities (1)	27,827	28,170	26,616	63,000
Loans (2)	305,697	52,376	48,520	92,100
Total interest bearing assets	\$ 339,402	\$ 80,546	\$ 75,136	\$ 155,100
Interest bearing liabilities:				
Savings and interest bearing demand deposits	\$ 59,241	\$ 1,556	\$ 2,334	\$ 4,600
Money market savings deposits	299,185	--	--	--
Time deposits	55,399	78,874	113,472	101,200
Federal funds purchased, repurchase agreements, and notes payable	99,333	3,060	6,136	2,400
FHLB advances and other borrowings	6,075	16,000	2,499	--
Total interest bearing liabilities	\$ 519,233	\$ 99,490	\$ 124,441	\$ 108,300
Net asset (liability) funding gap	(179,831)	(18,944)	(49,305)	46,700
Repricing gap	0.65	0.81	0.60	1.10
Cumulative repricing gap	0.65	0.68	0.67	0.60

Included in the 1-30 day category of savings and interest-bearing demand deposits are non-core deposits plus a percentage, based upon industry-accepted assumptions and Company analysis, of the core deposits. "Core deposits" are the lowest average balance of the prior twelve months of each product type included in this category. "Non-core deposits" are the difference between the current balance and core deposits. The time frames include a percentage, based upon industry-accepted assumptions and Company analysis, of the core deposits, as follows:

	1-30 Days	31-90 Days	91-180 Days	181-365 Days
Savings and interest-bearing demand deposits	0.45%	0.85%	1.25%	2.45%

At September 30, 2006, the Company was somewhat liability sensitive due to the levels of savings and interest bearing demand deposits, time deposits and federal funds purchased, repurchase agreements and notes payable. As such, the effect of an increase in the interest rate for all interest bearing assets and liabilities of 100 basis points would decrease annualized net interest income by approximately \$1.798 million in the 1-30 days category and \$1.988 million in the

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1-90 days category, assuming no management intervention. A decrease in interest rates would have the opposite effect for the same time periods. The Company's Asset and Liability Management Policy states that the cumulative ratio of rate-sensitive assets ("RSA") to rate-sensitive liabilities ("RSL") for the 12-month period should fall within the range of 0.75-1.25. As of September 30, 2006, the Company's RSA/RSL was 0.76, which was within the established guidelines.

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In addition to managing interest rate sensitivity and liquidity through the use of gap reports, the Company has provided for emergency liquidity situations with informal agreements with correspondent banks that permit the Company to borrow federal funds on an unsecured basis. Additionally, at September 30, 2006, the Company had a \$15 million unsecured line of credit with a correspondent bank, all of which was available at that date. The Company also has sufficient capacity to permit it to borrow funds from the Federal Home Loan Bank on a secured basis (refer to the Liquidity and Cash Flows section that follows for additional information).

The Company uses financial forecasting/budgeting/reporting software packages to perform interest rate sensitivity analysis for all product categories. The Company's primary focus of its analysis is on the effect of interest rate increases and decreases on net interest income. Management believes that this analysis reflects the potential effects on current earnings of interest rate changes. Call criteria and prepayment assumptions are taken into consideration for investments in debt and equity securities. All of the Company's financial instruments are analyzed by a software database which includes each of the different product categories which are tied to key rates such as prime, Treasury Bills, or the federal funds rate. The relationships of each of the different products to the key rate that the product is tied to is proportional. The software reprices the products based on current offering rates. The software performs interest rate sensitivity analysis by performing rate shocks of plus or minus 200 basis points in 100 basis point increments.

The following table shows projected results at September 30, 2006 and December 31, 2005 of the impact on net interest income from an immediate change in interest rates. The results are shown as a percentage change in net interest income over the next twelve months.

	Basis Point Change			
	+200	+100	-100	-200
September 30, 2006	4.2%	2.1%	(2.2%)	(4.5%)
December 31, 2005	8.9%	4.7%	(4.7%)	(9.4%)

The foregoing computations are based on numerous assumptions, including relative levels of market interest rates, prepayments and deposit mix. The computed estimates should not be relied upon as a projection of actual results. Despite the limitations on preciseness inherent in these computations, management believes that the information provided is reasonably indicative of the effect of changes in interest rate levels on the net earning capacity of the Company's current mix of interest bearing assets and interest bearing liabilities. Management continues to use the results of these computations, along with the results of its computer model projections, in order to enhance earnings

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potential while positioning the Company to minimize the effect of a prolonged shift in interest rates that would adversely affect future results of operations.

At the present time, the most significant market risk affecting the Company is interest rate risk. Other market risks such as foreign currency exchange risk and commodity price risk do not occur in the normal business of the Company. The Company also is not currently using trading activities or derivative instruments to control interest rate risk.

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Liquidity and Cash Flows

The Company requires cash to fund loan growth and deposit withdrawals. Cash flows fluctuate with changes in economic conditions, current interest rate trends and as a result of management strategies and programs. In general, funds provided by customer deposits, federal funds purchased, repurchase agreements and notes payable, and maturities, calls and paydowns of investment securities are used to fund loans and purchase investment securities. Available funds are used to fund demand for loans that meet the Company's credit quality guidelines, with the remaining funds used to purchase investment securities and/or federal funds sold. The Company monitors the demand for cash and initiates programs and policies as considered necessary to meet funding gaps.

The Company was able to meet liquidity needs during the first nine months of 2006. A review of the consolidated statement of cash flows in the accompanying financial statements shows that the Company's cash and cash equivalents decreased \$34.757 million from December 31, 2005 to September 30, 2006. The decrease in 2006 resulted from cash used in financing activities, offset somewhat by cash provided by investing and operating activities. There were differences in sources and uses of cash during 2006 compared to 2005.

Cash used in financing activities during 2006 was \$80.580 million compared to \$10.606 million during the same period in 2005, primarily due to less cash provided by Federal Home Loan Bank advances and other borrowings, more payments on Federal Home Loan Bank and other borrowings and cash used by federal funds purchased, repurchase agreements and notes payable during the first nine months of 2006 compared to cash provided during the same period in 2005. Federal Home Loan Bank advances and other borrowings were \$1.000 million during the first nine months of 2006 compared to \$34.500 million during the same period in 2005 which was used mainly as a source of working capital (of which \$20.000 million was repaid in July 2005). Cash used by Federal Home Loan Bank advances and other borrowings was \$38.812 million during the first nine months of 2006 compared to \$30.499 million during the same period in 2005. \$34.000 million of the \$38.812 million in 2006 was due to maturities and calls of Federal Home Loan Bank advances. Cash used during the first nine months of 2006 for federal funds purchased, repurchase agreements and notes payable was \$7.496 million compared to cash provided of \$20.230 million during the same period in 2005, which was primarily the result of an increase in repurchase agreements.

Less cash was provided by investing activities during the first nine months of 2006 compared to the same period in 2005, primarily due to differences in the loan portfolio and investments in debt and equity securities. Cash provided by net loan repayments during the first nine months of 2006 was \$20.374 million due to a decrease in gross loans, compared to cash used to fund loan growth of \$12.564 million during the same period in 2005. The decrease in loans during the first nine months of 2006 was attributable to the Company's unwillingness to meet some of the underwriting and pricing available in the market. Cash provided by investment activities during the first nine months of 2006 was \$13.726 million compared to cash provided of \$63.183 million during the same period in

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2005. In 2006, proceeds of \$80.903 million from maturities, calls and sales of debt and equity securities, principal paydowns on mortgage-backed securities, return of principal on other equity securities and proceeds from redemption of non-marketable equity securities were somewhat offset by \$67.177 million of cash used to purchase debt and equity securities. Included in the 2006 investment proceeds was \$7.397 million due to the redemption of excess FHLB stock. During the same period in 2005, proceeds of \$211.014 million from maturities, calls and sales of debt and equity securities, principal paydowns on mortgage-backed securities and return of principal on other equity securities were offset somewhat by cash used to purchase debt and equity securities of \$147.831 million. In addition, \$6.385 million was used to fund the acquisition of Citizens in 2005. Cash provided by operating activities during the first nine months of 2006 was \$13.008 million compared to \$15.474 million during the same period in 2005.

The Company's future short-term cash requirements are expected to be provided by maturities and sales of investments, sales of loans and deposit growth. Cash required to meet longer-term liquidity requirements will mostly depend on future goals and strategies of management, the competitive environment, economic factors and changes in the needs of customers. If current sources of liquidity cannot provide needed cash in the future, the Company can obtain long-term funds from several sources, including, but not limited to, utilizing the Company's \$15 million line of credit from a correspondent bank, FHLB advances and brokered CDs. To meet short-term liquidity needs, the Company is able to borrow funds on a temporary basis from the Federal Reserve Bank, the FHLB and correspondent banks. With sound capital levels, the Company continues to have several options for longer-term cash needs, such as for future expansion and acquisitions.

Management is not aware of any current recommendations by the Company's primary regulators which if implemented would have a material effect on the Company's liquidity, capital resources or operations.

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Critical Accounting Policies

The preparation of financial statements in conformity with accounting standards generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosures of contingent assets and liabilities. Actual results could differ from those estimates under different assumptions and conditions. The Company believes that it has one critical accounting policy, allowance for loan losses, that is subject to estimates and judgments used in the preparation of its consolidated financial statements.

Provision and Allowance for Loan Losses

The provision for loan losses is based on management's evaluation of the loan portfolio in light of national and local economic conditions, changes in the composition and volume of the loan portfolio, changes in the volume of past due and nonaccrual loans, and other relevant factors. The allowance for loan losses, which is reported as a deduction from loans, is available for loan charge-offs. The allowance is increased by the provision charged to expense and is reduced by loan charge-offs net of loan recoveries. The allowance is allocated between the commercial, financial and agricultural; commercial real estate; residential real estate; and installment and consumer loan portfolios according to the historical losses experienced in each of these portfolios as well as the current level of watch list loans and nonperforming loans for each portfolio. Loans for which borrower cash flow and the estimated liquidation value of collateral are inadequate to repay the total outstanding balance are evaluated separately and

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assigned a specific allocation. The unallocated portion of the allowance is determined by economic conditions and other factors mentioned above. The balance of the allowance for loan losses was \$14.233 million at September 30, 2006 compared to \$13.472 million at December 31, 2005, an increase of \$761,000. Net charge-offs were \$589,000 and the provision totaled \$1.350 million during the first nine months of 2006. The allowance for loan losses as a percentage of gross loans, including loans held-for-sale, was 1.43% at September 30, 2006, compared to 1.32% at December 31, 2005. Gross loans, including loans held-for-sale, decreased 2.1% to \$996.644 million at September 30, 2006 from \$1.018 billion at December 31, 2005.

One measure of the adequacy of the allowance for loan losses is the ratio of the allowance to nonperforming loans. The allowance for loan losses as a percentage of nonperforming loans was 167.9% at September 30, 2006 compared to 449.1% at December 31, 2005. Nonperforming loans increased from \$3.000 million at December 31, 2005 to \$8.479 million at September 30, 2006. The \$5.479 million increase in nonperforming loans during the first nine months of 2006 resulted from a \$4.004 million increase in nonaccrual loans and an increase of \$1.475 million in loans past due 90 days or more. The increase in nonaccrual loans included the addition in the first quarter of three commercial real estate loans to a real estate developer that totaled \$4.134 million at September 30, 2006. The increase in 90-day delinquencies was primarily due to an \$820,000 increase in residential real estate loans and a \$501,000 increase in commercial real estate loans past due 90 days or more. Management believes that nonperforming and potential problem loans are appropriately identified and monitored based on the extensive loan analysis performed by the credit administration department and the internal loan committees with oversight by the Board of Directors. Historically, there have not been a significant amount of loans charged off which had not been previously identified as problem loans by the credit administration department or the loan committees. Management believes the allowance for loan losses is at a level commensurate with the overall risk exposure of the loan portfolio. However, certain borrowers may experience difficulty and the level of non-performing loans, charge-offs, and delinquencies could rise and require further increases in the provision for loan losses.

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The following table summarizes changes in the allowance for loan losses by loan categories for each period and additions to the allowance for loan losses, which have been charged to operations.

Allowance for Loan Losses (dollars in thousands)	September 30,	
	2006	2005

Allowance for loan losses at beginning of year	\$ 13,472	\$ 9,650
Allowance for loan losses attributable to acquisition of Citizens	--	3,434

Charge-offs during period:		
Commercial, financial and agricultural	\$ (531)	\$ (161)
Commercial real estate	(158)	--
Residential real estate	(88)	(2)
Installment and consumer	(262)	(547)

Total	\$ (1,039)	\$ (710)

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Recoveries of loans previously charged off:		
Commercial, financial and agricultural	\$ 5	\$ 17
Commercial real estate	--	5
Residential real estate	16	--
Installment and consumer	429	212
	-----	-----
Total	\$ 450	\$ 234
	-----	-----
Net (charge-offs) recoveries	\$ (589)	\$ (476)
	-----	-----
Provision for loan losses	1,350	1,080
	-----	-----
Allowance for loan losses at end of quarter	\$ 14,233	\$ 13,688
	=====	=====
Ratio of net charge-offs to average net loans	(0.06)%	(0.05)%
	=====	=====

The following table shows the allocation of the allowance for loan losses allocated to each category.

Allocation of the Allowance for Loan Losses (in thousands)

	September 30, 2006	December 31, 2005
	-----	-----
Allocated:		
Commercial, financial and agricultural	\$ 4,161	\$ 4,433
Commercial real estate	7,808	5,991
Residential real estate	447	424
Installment and consumer	1,278	1,447
	-----	-----
Total allocated allowance	\$ 13,694	\$ 12,295
	-----	-----
Unallocated allowances	539	1,177
	-----	-----
Total	\$ 14,233	\$ 13,472
	=====	=====

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The following table presents the aggregate amount of loans considered to be nonperforming for the periods indicated. Nonperforming loans include loans accounted for on a nonaccrual basis, accruing loans contractually past due 90 days or more as to interest or principal payments and loans which are troubled debt restructurings as defined in Statement of Financial Accounting Standards No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings."

Nonperforming Loans (dollars in thousands)

	September 30, 2006	December 31, 2005
	-----	-----

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Nonaccrual loans(1)	\$ 6,238	\$ 2,234
Loans past due 90 days or more	\$ 2,241	\$ 766
Restructured loans	\$ 251	\$ 324

(1) Includes \$1.032 million at September 30, 2006 and \$975,000 at December 31, 2005 of real estate and consumer loans which management does not consider impaired as defined by the Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairments of a Loan" (SFAS 114).

Other Nonperforming Assets (dollars in thousands)

	September 30, 2006	December 31, 2005

Other real estate owned	\$ 219	\$ 188
Nonperforming other assets	\$ 12	\$ 36

Results of Operations

Results of Operations for the Nine Months Ended September 30, 2006

Net income for the first nine months of 2006 was \$14.168 million, a \$357,000, or 2.6%, increase from \$13.811 million for the same period in 2005. Basic earnings per share increased \$0.02, or 1.4%, to \$1.40 per share in the first nine months of 2006 from \$1.38 per share in the first nine months of 2005. Diluted earnings per share increased \$0.02, or 1.5%, to \$1.39 per share in the first nine months of 2006 from \$1.37 per share in the first nine months of 2005.

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The following schedule "Consolidated Average Balance Sheet and Interest Rates" provides details of average balances, interest income and interest expense, and the average rates for the Company's major asset and liability categories.

Consolidated Average Balance Sheet and Interest Rates
(dollars in thousands)
Nine Months Ended September 30,

	2006			
	Average Balance	Interest	Rate	Average Balance

Assets				

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Taxable investment securities(1)	\$ 429,148	\$ 13,321	4.15%	\$ 318,483
Tax-exempt investment securities(1) (TE) .	30,737	1,394	6.06%	39,948
Federal funds sold and interest bearing deposits(2)	19,047	965	6.77%	42,069
Loans (3), (4) (TE)	971,424	52,222	7.19%	922,896

Total interest bearing assets and interest income (TE)	\$1,450,356	\$ 67,902	6.26%	\$1,323,396

Cash and due from banks	\$ 44,828			\$ 44,024
Premises and equipment	22,845			20,685
Other assets	59,595			46,980

Total assets	\$1,577,624			\$1,435,085
=====				
Liabilities and Shareholders' Equity				
Interest bearing demand deposits	\$ 70,676	\$ 348	0.66%	\$ 75,254
Savings	480,300	10,537	2.93%	408,827
Time deposits	471,797	13,504	3.83%	429,171
Federal funds purchased, repurchase agreements, and notes payable	126,664	4,064	4.29%	113,738
FHLB advances and other borrowings	46,423	1,746	5.03%	57,292

Total interest bearing liabilities and interest expense	\$1,195,860	\$ 30,199	3.38%	\$1,084,282

Noninterest bearing demand deposits	\$ 144,087			\$ 131,058
Noninterest bearing savings deposits	73,937			71,095
Other liabilities	17,780			14,584

Total liabilities	\$1,431,664			\$1,301,019
Shareholders' equity	145,960			134,066

Total liabilities and shareholders' equity	\$1,577,624			\$1,435,085
=====				
Interest spread (average rate earned minus average rate paid) (TE)			2.88%	

Net interest income (TE)		\$ 37,703		
=====				
Net yield on interest earnings assets (TE)			3.48%	
=====				

See next page for Notes 1-4.

Notes to Consolidated Average Balance Sheet and Interest Rates Tables:

Net interest income, the most significant component of the Company's earnings, is the difference between interest received or accrued on the Company's earning assets - primarily loans and investments - and interest paid or accrued on deposits and borrowings. In order to compare the interest generated from different types of earning assets, the interest income on certain tax-exempt investment securities and loans is increased for analysis purposes to reflect the income tax savings provided by the tax-exempt assets. This adjustment to interest income for tax-exempt investment securities and loans was calculated

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based on the federal income tax statutory rate of 35%. The following table presents, on a tax-equivalent (TE) basis, an analysis of changes in net interest income resulting from changes in average volumes of earning assets and interest bearing liabilities and average rates earned and paid. The change in interest due to the combined rate/volume variance has been allocated to rate and volume changes in proportion to the absolute dollar amounts of change in each.

Analysis of Volume and Rate Changes (in thousands) Nine Months Ended September 30, 2006

	Increase (Decrease) from Previous Year	Due to Volume	Due to Rate
<hr/>			
Interest Income			
Taxable investment securities	\$ 4,052	\$ 3,400	\$ 652
Tax-exempt investment securities (TE)	(384)	(417)	33
Federal funds sold and interest bearing deposits	(287)	(896)	609
Loans (TE)	8,250	2,398	5,852
	<hr/>		
Total interest income (TE)	\$ 11,631	\$ 4,485	\$ 7,146
<hr/>			
Interest Expense			
Interest bearing demand and savings deposits ...	\$ 5,859	\$ 778	\$ 5,081
Time deposits	3,659	1,047	2,612
Federal funds purchased, repurchase agreements and notes payable	1,936	265	1,671
FHLB advances and other borrowings	(239)	(399)	160
	<hr/>		
Total interest expense	\$ 11,215	\$ 1,691	\$ 9,524
<hr/>			
Net Interest Income (TE)	\$ 416	\$ 2,794	\$ (2,378)
<hr/> <hr/>			

Net interest income on a tax-equivalent basis was \$416,000, or 1.1%, higher for the first nine months of 2006 compared to the same period of 2005. Total tax-equivalent interest income was \$11.631 million, or 20.7%, higher in 2006 compared to 2005, and interest expense increased \$11.215 million, or 59.1%. The increase in tax-equivalent interest income and interest expense was due to both increases in average volume and higher rates.

The increase in total tax-equivalent interest income was due to an increase in interest income from loans and taxable investment securities, offset somewhat by decreases in interest income from tax-exempt investment securities and federal funds sold and interest bearing deposits. The increase in interest income from loans and taxable investment securities was due to increases in volume coupled with higher rates. The decrease in interest income from tax-exempt investment securities and federal fund sold and interest bearing deposits was due to a decrease in volume, offset somewhat by higher rates.

The increase in total interest expense was due to an increase in interest expense from interest bearing demand and savings deposits, time deposits and federal funds purchased, repurchase agreements and notes payable, offset slightly by a decrease in interest expense from FHLB advances and other borrowings. The increase in interest expense from interest bearing demand and

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savings deposits, time deposits and federal funds purchased, repurchase agreements and notes payable was due to higher rates coupled with increases in volume. The decrease in interest expense from FHLB advances and other borrowings was due a decrease in volume offset somewhat by an increase in rates.

The provision for loan losses recorded was \$1.350 million during the first nine months of 2006 compared to \$1.080 million during the same period of 2005. The provision during both periods was based on management's analysis of the loan portfolio, as discussed in the provision for loan losses section above.

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The following table summarizes selected categories of non-interest income and non-interest expense for the nine months ended September 30, 2006 and 2005. The acquisition of Citizens on April 1, 2005, has been accounted for as a purchase and the results of operations of Citizens since the acquisition date have been included in the Company's consolidated financial statements. Effective January 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123(R), Share-Based Payment, using the modified-prospective-transition method. (Refer to Note 4, Stock Option Plans, for additional information.) As a result, the Company recognized an additional \$483,000 in stock option expense in the first nine months of 2006, with \$350,000 being allocated to salaries and benefits expense and \$133,000 attributable to non-employee options being allocated to other non-interest expense.

Noninterest Income and Expense for the Nine Months Ended September 30, 2006 and 2005 (in thousands)

Non-interest Income	09/30/2006	09/30/2005	\$ change	% change
Remittance processing (1)	\$ 5,366	\$ 5,144	\$ 222	4.3
Trust and brokerage fees	5,944	5,805	139	2.4
Service charges on deposit accounts	2,061	2,129	(68)	(3.2)
Securities transactions, net (2)	279	(450)	729	162.0
Gain on sales of mortgage loans, net (3) ...	442	726	(284)	(39.1)
Other (4)	2,420	2,017	403	20.0
Total non-interest income .	\$ 16,512	\$ 15,371	\$ 1,141	7.4
<hr/>				
Non-interest Expense	09/30/2006	09/30/2005	\$ change	% change
Salaries and employee benefits (5)	\$ 17,693	\$ 17,325	\$ 368	2.1
Occupancy	2,322	2,293	29	1.3
Equipment	1,862	1,955	(93)	(4.8)
Data processing (6)	2,278	1,669	609	36.5
Office supplies	892	906	(14)	(1.5)
Service charges from correspondent banks (7)	214	389	(175)	(45.0)
Amortization of core deposit intangibles (8)	653	435	218	50.1
Other (9)	4,855	4,342	513	11.8
Total non-interest expense .	\$ 30,769	\$ 29,314	\$ 1,455	5.0

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Income tax expense decreased \$395,000, or 5.1%, during the first nine months of 2006 compared to the same period in 2005. The effective tax rate decreased to 34.4% during the first nine months of 2006 from 36.2% during the same period in 2005. This decrease was partly due to a \$205,000 tax credit resulting from the loss from a low-income housing project investment described in footnote 9 above.

Results of Operations For the Three Months Ended September 30, 2006

Net income for the third quarter of 2006 was \$4.679 million, a \$472,000, or 9.2%, decrease from \$5.151 million for the same period in 2005. Both basic and diluted earnings per share decreased \$0.04, or 8.0%, to \$0.46 per share during the third quarter of 2006 from \$0.50 per share during the same period in 2005.

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The following schedule "Consolidated Average Balance Sheet and Interest Rates" provides details of average balances, interest income and interest expense, and the average rates for the Company's major asset and liability categories.

Consolidated Average Balance Sheet and Interest Rates
(dollars in thousands)
Three Months Ended September 30,

	2006			
	Average Balance	Interest	Rate	Average Balance
Assets				
Taxable investment securities(1)	\$ 413,068	\$ 4,635	4.45%	\$ 321,759
Tax-exempt investment securities(1) (TE) .	29,319	436	5.90%	38,274
Federal funds sold and interest bearing deposits(2)	13,291	268	8.00%	40,413
Loans (3), (4) (TE)	968,092	18,061	7.40%	1,007,078
Total interest bearing assets and interest income (TE)	\$1,423,770	\$ 23,400	6.52%	\$1,407,524
Cash and due from banks	\$ 45,024			\$ 48,848
Premises and equipment	22,663			22,483
Other assets	59,891			58,708
Total assets	\$1,551,348			\$1,537,563
Liabilities and Shareholders' Equity				
Interest bearing demand deposits	\$ 68,362	\$ 120	0.70%	\$ 75,062
Savings	463,462	3,673	3.14%	425,355
Time deposits	481,615	4,976	4.10%	472,397
Federal funds purchased, repurchase agreements, and notes payable	122,100	1,467	4.77%	117,852
FHLB advances and other borrowings	35,929	484	5.34%	71,828
Total interest bearing liabilities and interest expense	\$1,171,468	\$ 10,720	3.63%	\$1,162,494

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Noninterest bearing demand deposits	\$ 141,357	\$ 137,956
Noninterest bearing savings deposits	74,917	76,923
Other liabilities	16,726	16,364
<hr/>		
Total liabilities	\$1,404,468	\$1,393,737
Shareholders' equity	146,880	143,826
<hr/>		
Total liabilities and shareholders' equity	\$1,551,348	\$1,537,563
<hr/>		
Interest spread (average rate earned minus average rate paid) (TE)		2.89%
<hr/>		
Net interest income (TE)	\$ 12,680	
<hr/>		
Net yield on interest earnings assets (TE)		3.53%
<hr/>		

See next page for Notes 1-4.

Notes to Consolidated Average Balance Sheet and Interest Rate Tables:

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Net interest income, the most significant component of the Company's earnings, is the difference between interest received or accrued on the Company's earning assets - primarily loans and investments - and interest paid or accrued on deposits and borrowings. In order to compare the interest generated from different types of earning assets, the interest income on certain tax-exempt investment securities and loans is increased for analysis purposes to reflect the income tax savings provided by the tax-exempt assets. This adjustment to interest income for tax-exempt investment securities and loans was calculated based on the federal income tax statutory rate of 35%. The following table presents, on a tax-equivalent (TE) basis, an analysis of changes in net interest income resulting from changes in average volumes of earning assets and interest bearing liabilities and average rates earned and paid. The change in interest due to the combined rate/volume variance has been allocated to rate and volume changes in proportion to the absolute dollar amounts of change in each.

Analysis of Volume and Rate Changes
(in thousands)
Three Months Ended September 30, 2006

	Increase (Decrease)		
	from Previous Year	Due to Volume	Due to Rate
<hr/>			
Interest Income			
Taxable investment securities	\$ 971	\$ 1,025	\$ (54)
Tax-exempt investment securities (TE)	(133)	(133)	--
Federal funds sold and interest bearing deposits	(171)	(405)	234
Loans (TE)	1,413	(664)	2,077
<hr/>			
Total interest income (TE)	\$ 2,080	\$ (177)	\$ 2,257

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Interest Expense			
Interest bearing demand and savings deposits ...	\$ 1,712	\$ 142	\$ 1,570
Time deposits	1,189	75	1,114
Federal funds purchased, repurchase agreements and notes payable	597	32	565
FHLB advances and other borrowings	(328)	(462)	134
Total interest expense	\$ 3,170	\$ (213)	\$ 3,383
Net Interest Income (TE)	\$ (1,090)	\$ 36	\$ (1,126)

Net interest income on a tax-equivalent basis was \$1.090 million, or 7.9%, lower for the third quarter of 2006 compared to the third quarter of 2005. Total tax-equivalent interest income was \$2.080 million, or 9.8%, higher in 2006 compared to 2005, while interest expense increased \$3.170 million, or 42.0%. The increase in tax-equivalent interest income was due to an increase in rates offset slightly by a decrease in volume. The increase in interest expense was due to an increase in rates offset somewhat by a decrease in volume.

The increase in total tax-equivalent interest income was due to increases in interest income from loans and taxable investment securities, offset slightly by decreases in interest income from federal funds sold and interest bearing deposits and tax-exempt investment securities. The increase in interest income from loans was due to an increase in rates, offset somewhat by a decrease in volume. The increase in interest income from taxable investment securities was due to an increase in volume, offset slightly by a decrease in rates. The decreases in interest income from federal funds sold and interest bearing deposits was due to a decrease in volume offset somewhat by an increase in rates. The decrease in interest income from tax-exempt investment securities was due to a decrease in volume during the third quarter of 2006 compared to the same period in 2005.

The increase in total interest expense was due to increases in interest expense on interest bearing demand and savings deposits, time deposits and federal funds purchased, repurchase agreements and notes payable, offset somewhat by a decrease in interest expense on FHLB advances and other borrowings. The increases in interest expense on interest bearing demand and savings deposits, time deposits and federal funds purchased, repurchase agreements and notes payable were primarily due to increases in rates coupled with increases in volume during the third quarter of 2006 compared to the same period in 2005. The decrease in interest expense from FHLB advances and other borrowings was due to a decrease in volume, offset somewhat by an increase in rates.

The provision for loan losses recorded was \$450,000 in both the third quarter of 2006 and 2005. The provision during both periods was based on management's analysis of the loan portfolio, as discussed in the provision and allowance for loan losses section above.

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The following table summarizes selected categories of non-interest income and non-interest expense for the three months ended September 30, 2006 and 2005. Effective January 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123(R), Share-Based Payment, using the modified-prospective-transition method. (Refer to Note 4, Stock Option Plans, for additional information.) As a result, the Company recognized an additional \$163,000 in stock option expense in the third quarter of 2006, with \$118,000 being allocated to salaries and benefits expense and \$45,000 attributable to non-employee options being allocated to other non-interest expense.

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Noninterest Income and Expense for the Three Months Ended September 30, 2006 and 2005 (in thousands)

Non-interest Income	09/30/2006	09/30/2005	\$ change	% change
Remittance processing (1)	\$ 1,863	\$ 1,741	\$ 122	7.0%
Trust and brokerage fees (2)	2,042	2,153	(111)	(5.2%)
Service charges on deposit accounts	670	820	(150)	(18.3%)
Securities transactions, net (3)	--	(485)	485	100.0%
Gain on sales of mortgage loans, net (4) ...	166	329	(163)	(49.5%)
Other	747	740	7	0.9%
Total non-interest income .	\$ 5,488	\$ 5,298	\$ 190	3.6%

Non-interest Expense	09/30/2006	09/30/2005	\$ change	% change
Salaries and employee benefits (5)	\$ 6,008	\$ 6,097	\$ (89)	(1.5%)
Occupancy	747	824	(77)	(9.3%)
Equipment	619	674	(55)	(8.2%)
Data processing (6)	821	566	255	45.1%
Office supplies	295	319	(24)	(7.5%)
Service charges from correspondent banks (7)	68	134	(66)	(49.3%)
Amortization of core deposit intangibles ...	218	217	1	0.5%
Other (8)	1,646	1,480	166	11.2%
Total non-interest expense .	\$ 10,422	\$ 10,311	\$ 111	1.1%

Income tax expense decreased \$492,000, or 16.7%, during the third quarter of 2006 compared to the same period in 2005. The effective tax rate decreased to 34.5% during the third quarter of 2006 from 36.4% in the third quarter of 2005.

Business Segment Information

The Company currently operates in two industry segments. The primary business involves providing banking services to central Illinois to both business and individual customers. These services include demand, savings, time and individual retirement accounts; commercial, commercial real estate, consumer (including automobile loans and personal lines of credit), agricultural, and residential real estate lending; safe deposit and night depository services; purchases of installment obligations from retailers, primarily without recourse; farm management; farm realty service; full service trust department that offers a wide range of services such as investment management, acting as trustee, serving as guardian, executor or agent, comprehensive financial planning, miscellaneous consulting, and brokerage services offered through a third-party arrangement with Raymond James Financial Services. The other industry segment involves retail payment processing. FirstTech provides the following services to electric, water and gas utilities, telecommunication companies, cable television firms and charitable organizations: retail lockbox processing of payments delivered by mail on behalf of the biller; processing of payments delivered by customers to pay agents such as grocery stores, convenience stores and currency exchanges; and concentration of payments delivered by the Automated Clearing House network and companies such as MasterCard RPPS.

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Company information is provided for informational purposes only, since it is not considered a separate segment for reporting purposes.

The following table quantifies the Company's business segment information for the nine-months ended September 30, 2006 and 2005:

As of and for the Nine Months Ended:	Banking Services	Remittance Services	Company	Eliminations

September 30, 2006				
Total interest income	\$ 67,113	\$ 20	\$ 315	\$ (49)
Total interest expense	29,988	--	260	(49)
Provision for loan losses	1,350	--	--	--
Total non-interest income	11,548	5,678	250	(964)
Total non-interest expense	27,002	3,326	1,405	(964)
Income before income tax	20,321	2,372	(1,100)	--
Income tax expense	7,180	996	(751)	--
Net income	13,141	1,376	(349)	--
Goodwill	20,736	--	--	--
Total assets	1,544,837	5,158	155,769	(147,614)
Depreciation & amortization - fixed assets	1,660	229	41	--
September 30, 2005				
Total interest income	\$ 53,846	\$ 10	\$ 1,821	\$ (39)
Total interest expense	18,813	--	210	(39)
Provision for loan losses	1,080	--	--	--
Total non-interest income	11,372	5,253	(456)	(798)
Total non-interest expense	25,988	3,194	930	(798)
Income before income tax	19,337	2,069	225	--
Income tax expense	6,871	870	79	--
Net income	12,466	1,199	146	--
Goodwill	20,736	--	--	--
Total assets	1,517,540	3,296	157,292	(144,709)
Depreciation & amortization - fixed assets	1,573	288	40	--

Emerging Accounting Standards

The FASB has issued FASB Staff Position (FSP) FAS 123-R-3, "Transition Election Related to Accounting for the Tax Effects of Share-Based Payments Awards." This FSP provides a practical exception when a company transitions to the accounting requirements in FASB Statement No. 123 (Revised 2004), Share-Based Payment. Statement 123R requires a company to calculate the pool of excess tax benefits available to absorb tax deficiencies recognized subsequent to adopting Statement 123R (termed the "APIC Pool"), assuming the Company has been following the recognition provisions prescribed by FASB Statement No. 123, Accounting for Stock-Based Compensation. The FASB learned that several companies do not have the necessary historical information to calculate the APIC pool as envisioned by Statement 123R and accordingly, the FASB decided to allow a practical exception as documented in this FSP. The guidance in this FSP is effective immediately and includes transition guidance. The Company believes it has the necessary information to calculate the APIC pool and does not anticipate utilizing this exception.

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In July, 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48). FIN 48 clarifies the accounting and reporting for income taxes recognized in accordance with SFAS No. 109, "Accounting for Income Taxes." This interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. The Company is currently evaluating the impact of FIN 48. The Company will adopt FIN 48 in the first quarter of 2007.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This Statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. It clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. The Statement does not require any new fair value measurements, but rather, it provides enhanced guidance to other pronouncements that require or permit assets or liabilities to be measured at fair value. This Statement is effective for fiscal years beginning after November 15, 2007, with earlier adoption permitted. The Company does not expect that the adoption of this Statement will have a material impact on its financial position, results of operations and cash flows.

Recent Regulatory Developments

The Financial Services Regulatory Relief Act of 2006 (the "Regulatory Relief Act") was signed into law on October 13, 2006. The stated purpose of the Regulatory Relief Act is to provide regulatory relief and improve productivity for insured depository institutions. Among other things, the Regulatory Relief Act: (i) requires the Securities and Exchange Commission and the Board of Governors of the Federal Reserve System (the "Federal Reserve"), in consultation with the other federal banking regulators, to jointly promulgate regulations to implement the bank broker-dealer exceptions enacted in the Gramm-Leach-Bliley Act, and makes savings associations subject to the same broker-dealer registration requirements as banks; (ii) authorizes the Federal Reserve to pay interest on reserve balances maintained at the Federal Reserve Banks; (iii) authorizes the Federal Reserve to lower the reserve requirement for transaction accounts to 0%; (iv) enhances the authority of a national bank or state member bank to make community development investments and increases (from 10% to 15%) the maximum amount of unimpaired capital and surplus that a national bank or member bank may invest in investments designed to promote the public welfare; (v) increases the asset threshold (from \$250 million to \$500 million) for well-capitalized and well-managed banks eligible for 18-month (rather than 12-month) examinations; (vi) enhances the power of the federal banking agencies to enforce conditions imposed in writing in connection with the approval of applications and written agreements; (vii) clarifies the jurisdiction of the various state regulators over banks with branches in more than one state; and (viii) directs the Comptroller General to conduct studies on the currency transaction report filing system to determine whether and to what extent the filing rules for currency transaction reports are burdensome and whether such requirements should be modified to reduce such perceived burdens.

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

This document (including information incorporated by reference) contains, and future oral and written statements of the Company and its management may contain, forward-looking statements, within the meaning of such term in the Private Securities Litigation Reform Act of 1995, with respect to the financial condition, results of operations, plans, objectives, future performance and business of the Company. Forward-looking statements, which may be based upon beliefs, expectations and assumptions of the Company's management and on information currently available to management, are generally identifiable by the

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use of words such as "believe", "expect", "anticipate", "plan", "intend", "estimate", "may", "will", "would", "could", "should", or other similar expressions. Additionally, all statements in this document, including forward-looking statements, speak only as of the date they are made, and the Company undertakes no obligation to update any statement in light of new information or future events.

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The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. The factors which could have a material adverse effect on the Company's operations and future prospects are detailed in the "Risk Factors" section included in item 1a. of Part I of the Company's Form 10-K. Additional factors which could have a material adverse effect on the operations and future prospects of the Company and its subsidiaries include, but are not limited to, the following:

- o Unexpected results of the proposed merger with First Busey Corporation.
- o The economic impact of past and any future terrorist attacks, acts of war or threats thereof and the response of the United States to any such threats and attacks.
- o The costs, effects and outcomes of existing or future litigation.
- o Changes in accounting policies and practices, as may be adopted by state and federal regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission and the Public Company Accounting Oversight Board.
- o The ability of the Company to manage the risks associated with the foregoing as well as anticipated.

In addition to the risk factors described above, there are other factors that may impact any public company, including ours, which could have a material adverse effect on the operations and future prospects of the Company and its subsidiaries. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

See the "Interest Rate Sensitivity" section above.

Item 4. Controls and Procedures

As required by Rules 13a-15(b) and 15d-15(b) under the Securities Exchange Act of 1934, management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on their evaluation, management concluded our disclosure controls and procedures (as defined in Securities Exchange Act Rules 13a-15(e) and 15d-15(e)) were effective as of September 30, 2006 to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and were effective as of September 30, 2006. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act is accumulated and communicated to management, including our Chief

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Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

There have been no significant changes in the Company's internal controls over financial reporting, that occurred during the quarter ended September 30, 2006 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

There are no material pending legal proceedings to which the Company or its subsidiaries is a party other than ordinary routine litigation incidental to their respective businesses.

Item 1.A. Risk Factors

There have been no material changes in the risk factors applicable to the Company from those disclosed in Part I, Item 1.A., "Risk Factors," in the Company's 2005 Annual Report on Form 10-K. Please refer to that section of the Company's 10-K for disclosures regarding the risks and uncertainties related to the Company's business.

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

Issuer Purchases of Equity Securities

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 (1)	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
July 1 - July 31, 2006	17,000	\$ 30.75	17,000	70,718
August 1 - August 31, 2006 ..	65,855	\$ 30.87	65,855	4,863
September 1 - September 30, 2006	--	\$ --	--	4,863
Total	82,855	\$ 30.85	82,855	4,863

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None

Item 6. Exhibits

- 10.1 Agreement and Plan of Merger between Main Street Trust, Inc. and First Busey Corporation dated September 20, 2006 (previously filed as Exhibit 10.1 to the Company's Form 8-K filed on September 21, 2006 and incorporated by reference herein)
- 10.2 Letter agreement between Main Street Trust, Inc. and Gregory B. Lykins, dated September 20, 2006 (previously filed as Exhibit 99.1 to the Company's Form 8-K filed on September 21, 2006 and incorporated by reference herein)
- 10.3 Letter agreement between Main Street Trust, Inc. and Van A. Dukeman, dated September 20, 2006 (previously filed as Exhibit 99.2 to the Company's Form 8-K filed on September 21, 2006 and incorporated by reference herein)
- 10.4 Letter agreement between Main Street Trust, Inc. and David B. White, dated September 20, 2006 (previously filed as Exhibit 99.3 to the Company's Form 8-K filed on September 21, 2006 and incorporated by reference herein)
- 31.1 Certification of Chief Executive Officer Pursuant to Rule 13-a-14(a)/15d-14(a)
- 31.2 Certification of Chief Financial Officer Pursuant to Rule 13-a-14(a)/15d-14(a)
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MAIN STREET TRUST, INC.

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Date: November 8, 2006

By: /s/ David B. White

David B. White, Executive Vice President
And Chief Financial Officer

By: /s/ Van A. Dukeman

Van A. Dukeman, President
And Chief Executive Officer