MAIN STREET TRUST INC
Form 10-Q
August 09, 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 June 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. [X] Yes [ ] No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the 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 [X] No

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

Main Street Trust, Inc. Common Stock	10,110,884

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2006
ASSETS	
Cash and due from banks	$ 43,821

Federal funds sold and interest bearing deposits	2,769
Cash and cash equivalents	46,590
Investments in debt and equity securities:	
Available-for-sale, at fair value	353,722
Held-to-maturity, at cost (fair value of $78,105 and $75,665 at June 30, 2006 and December 31, 2005, respectively)	79,886
Non-marketable equity securities	17,543
Total investments in debt and equity securities	451,151
Loans, net of allowance for loan losses of $13,895 and $13,472 at June 30, 2006 and December 31, 2005, respectively	973,217
Mortgage loans held for sale	2,064
Premises and equipment	22,707
Goodwill	20,736
Core deposit intangibles	4,134
Accrued interest receivable	9,476
Other assets	26,069
Total assets	$ 1,556,144
LIABILITIES AND SHAREHOLDERS' EQUITY	
Liabilities:	
Deposits:	
Non-interest bearing	$ 212,905
Interest bearing	992,826
Total deposits	1,205,731
Federal funds purchased, repurchase agreements and notes payable	141,716
Federal Home Loan Bank advances and other borrowings	44,670
Accrued interest payable	4,604
Other liabilities	13,422
Total liabilities	1,410,143
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
Paid in capital	55,515
Retained earnings	124,921
Accumulated other comprehensive loss	(2,854)
	177,694
Less: treasury stock, at cost, 1,120,038 and 1,072,644 shares at June 30, 2006 and December 31, 2005, respectively	(31,693)
Total shareholders' equity	146,001
Total liabilities and shareholders' equity	$ 1,556,144

See accompanying notes to unaudited consolidated financial statements.

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

	2006	2005
Interest income:		
Loans and fees on loans	$ 34,151	$ 27,3
Investments in debt and equity securities		
Taxable	8,686	5,6
Tax-exempt	622	7
Federal funds sold and interest bearing deposits	697	8
Total interest income	44,156	34,5
Interest expense:		
Deposits	15,620	9,0
Federal funds purchased, repurchase agreements and notes payable	2,597	1,2
Federal Home Loan Bank advances and other borrowings	1,262	1,1
Total interest expense	19,479	11,4
Net interest income	24,677	23,0
Provision for loan losses	900	6
Net interest income after provision for loan losses	23,777	22,4
Non-interest income:		
Remittance processing	3,503	3,4
Trust and brokerage fees	3,902	3,6
Service charges on deposit accounts	1,391	1,3
Securities transactions, net	279	
Gain on sales of mortgage loans, net	276	3
Other	1,673	1,2
Total non-interest income	11,024	10,0
Non-interest expense:		
Salaries and employee benefits	11,685	11,2
Occupancy	1,575	1,4
Equipment	1,243	1,2
Data processing	1,457	1,1
Office supplies	597	5
Service charges from correspondent banks	146	2
Amortization of core deposit intangibles	435	2
Other	3,209	2,8
Total non-interest expense	20,347	19,0
Income before income taxes	14,454	13,5
Income taxes	4,965	4,8
Net income	$ 9,489	$ 8,6

Per share data:		
Basic earnings per share	$ 0.94	$ 0.
Weighted average shares of common stock outstanding	10,133,648	9,897,1
Diluted earnings per share	$ 0.93	$ 0.
Weighted average shares of common stock and dilutive potential common shares outstanding	10,255,595	9,996,5

See accompanying notes to unaudited consolidated financial statements.

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

	2006	
Net income	$ 9,489	$
Other comprehensive income (loss), before tax:		
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) arising during period, net of tax of ($727) and ($478), for June 30, 2006 and 2005, respectively	(1,090)	
Less: reclassification adjustment for gains (losses) included in net income, net of tax of ($112) and ($14), for June 30, 2006 and 2005, respectively	(167)	
Other comprehensive loss	(1,257)	
Comprehensive income	$ 8,232	$

See accompanying notes to unaudited consolidated financial statements.

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

	2006	20
Interest income:		
Loans and fees on loans	$ 17,356	$ 15
Investments in debt and equity securities		
Taxable	4,580	3
Tax-exempt	292	

Federal funds sold and interest bearing deposits	400	
Total interest income	22,628	20
Interest expense:		
Deposits	8,202	5
Federal funds purchased, repurchase agreements and notes payable	1,446	
Federal Home Loan Bank advances and other borrowings	581	
Total interest expense	10,229	6
Net interest income	12,399	13
Provision for loan losses	450	
Net interest income after provision for loan losses	11,949	12
Non-interest income:		
Remittance processing	1,738	1
Trust and brokerage fees	1,987	1
Service charges on deposit accounts	706	
Securities transactions, net	12	
Gain on sales of mortgage loans, net	150	
Other	912	
Total non-interest income	5,505	5
Non-interest expense:		
Salaries and employee benefits	5,764	6
Occupancy	783	
Equipment	628	
Data processing	719	
Office supplies	301	
Service charges from correspondent banks	82	
Amortization of core deposit intangibles	217	
Other	1,808	1
Total non-interest expense	10,302	10
Income before income taxes	7,152	7
Income taxes	2,353	2
Net income	$ 4,799	$ 4
Per share data:		
Basic earnings per share	$ 0.47	$
Weighted average shares of common stock outstanding	10,125,520	10,341
Diluted earnings per share	$ 0.47	$
Weighted average shares of common stock and dilutive potential common shares outstanding	10,247,920	10,438

See accompanying notes to unaudited consolidated financial statements.

MAIN STREET TRUST, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income

For the Three Months Ended June 30, 2006 and 2005
(Unaudited, in thousands)

	2006
Net income	$ 4,79
Other comprehensive income (loss), before tax:	
Unrealized gains (losses) on securities:	
Unrealized holding gains (losses) arising during period, net of tax of ($354) and $510 for June 30, 2006 and 2005, respectively	(52
Less: reclassification adjustment for gains (losses) included in net income, net of tax of ($5) and $62, for June 30, 2006 and 2005, respectively	(
Other comprehensive income (loss)	(53
Comprehensive income	$ 4,26

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 Six Months Ended June 30, 2006 and 2005
(Unaudited, in thousands)

	2006	2005
Cash flows from operating activities:		
Net income	$ 9,489	$ 8,660
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization - fixed assets	1,290	1,249
Amortization of bond premiums and accretion of accounts, net	301	755
Amortization of core deposit intangibles	435	218
Provision for loan losses	900	630
Securities transactions, net	(279)	(35)
Federal Home Loan Bank stock dividend	--	(338)
Undistributed loss (gain) from non-marketable equity securities	122	(540)
Gain on sales of mortgage loans, net	(276)	(397)
Gain on disposal of premises and equipment	--	8
Proceeds from sales of mortgage loans originated for sale	24,186	29,077
Mortgage loans originated for sale	(24,313)	(30,161)
Other, net	(1,784)	(878)
Net cash provided by operating activities	10,071	8,248
Cash flows from investing activities:		
Net decrease (increase) in loans	28,200	(21,484)
Proceeds from maturities and calls of investments in debt securities:		

Held-to-maturity	9,573	5,352
Available-for-sale	28,020	44,175
Proceeds from sales of investments:		
Available-for-sale	2,495	47,892
Purchases of investments in debt and equity securities:		
Held-to-maturity	(15,409)	(7,779)
Available-for-sale	(45,360)	(68,532)
Other equity securities	(850)	(310)
Principal paydowns from mortgage-backed securities:		
Held-to-maturity	2,298	3,677
Available-for-sale	2,287	7,353
Return of principal on other equity securities	782	1,800
Proceeds from redemption of non-marketable equity securities	7,397	--
Purchases of premises and equipment	(950)	(756)
Acquisition of Citizens First Financial Corporation	--	(6,385)
Net cash provided by investing activities	18,483	5,003
Cash flows from financing activities:		
Net decrease in deposits	(70,241)	(62,502)
Net increase in federal funds purchased, repurchase agreements, and notes payable	23,264	24,954
Advances from Federal Home Loan Bank and other borrowings	1,000	31,000
Payments on Federal Home Loan Bank and other borrowings	(23,716)	(9,404)
Cash dividends paid	(4,664)	(4,160)
MSTI stock transactions, net	(1,673)	(2,194)
Net cash used by financing activities	(76,030)	(22,306)
Net decrease in cash and cash equivalents	(47,476)	(9,055)
Cash and cash equivalents at beginning of year	94,066	64,928
Cash and cash equivalents at end of period	$ 46,590	$ 55,873

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Supplemental disclosure of cash flow information:

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

	2006	2005
Cash paid during the year for:		
Interest	$ 19,532	$ 10,756
Income taxes	6,224	4,570
Real estate acquired through or in lieu of foreclosure	610	--
Dividends declared not paid	2,323	2,262
Acquisition of Citizens First Financial Corporation:		
Stock issued		27,804

Cash paid	28,416
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.

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 June 30, 2006 and for the three-month and six-month periods ended June 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 six-month periods ended June 30, 2006 are not necessarily indicative of the results which may be expected for the year ended 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 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 FirsTech, 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. However, the Company has no current plans to do so.

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 six months ended June 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	$38,690
Interest Expense	13,029
Net Income	8,649
Basic EPS	0.87
Diluted EPS	0.87

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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.

Note 3. Income per Share

Net income per common share has been computed as follows:

	Six Months Ended June 30,		Three Months E June 30,	
	2006	2005	2006	2
Net Income	$ 9,489,000	$ 8,660,000	$ 4,799,000	$ 4,7
Shares				
Weighted average common shares outstanding	10,133,648	9,897,125	10,125,520	10,3
Dilutive effect of outstanding options, as determined by the application of the treasury stock method	121,947	99,449	122,400	
Weighted average common shares outstanding, as adjusted	10,255,595	9,996,574	10,247,920	10,4
Basic earnings per share	$ 0.94	$ 0.88	$ 0.47	$
Diluted earnings per share	$ 0.93	$ 0.87	$ 0.47	$

Note 4. Stock Option Plans

At June 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 June 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 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 six months ended June 30, 2006, were $320,000 and $192,000 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 period ended June 30, 2006 would have been $0.96 and $0.94, respectively, if the Company had not adopted Statement 123(R), compared to reported basic and diluted earnings per share of $0.94 and $0.93, respectively.

The following table illustrates the effect on net income 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.

	Six Months Ended June 30, 2005	Three Months Ended June 30, 2005
Net income on common stock:		
As reported	$ 8,660	$ 4,727
Deduct total stock-based compensation expense determined under the fair value method for all awards, net of related tax effects	(182)	(91)
Pro forma	$ 8,478	$ 4,636
Basic earnings per share:		
As reported	$ 0.88	$ 0.46
Pro forma	0.86	0.45
Diluted earnings per share:		
As reported	$ 0.87	$ 0.45
Pro forma	0.85	0.44

The Main Street Bank & Trust, Inc. 2000 Stock Incentive Plan (the "Plan"), which is 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 'ranted 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:

	Six Months Ended June 30, 2006	Six Months Ended June 30, 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%

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 June 30, 2006, and 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	32,524	19.30		
Forfeited or expired	3,822	30.04		
Outstanding at June 30, 2006	881,567	24.73	6.7	$ 5,098
Vested at June 30, 2006	687,803	23.24	6.0	$ 5,002
Exercisable at June 30, 2006	687,803	23.24	6.0	$ 5,002

The weighted-average grant-date fair value of options granted during the first six months of 2006 and 2005 was $4.79 and $4.71, respectively. The total intrinsic value of options exercised during the first six months of 2006 and 2005 was $356,000 and $230,000, 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 June 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	66,894	4.86
Forfeited	2,792	4.74
Nonvested at June 30, 2006	193,764	$ 4.79

As of June 30, 2006, there was $873,000 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 1.9 years. The weighted average grant date fair value of shares vested during the six month periods ended June 30, 2006 and 2005 was $4.86 and $4.67, respectively.

Note 5. Commitments and Financial Instruments

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)n the consolidated balance sheets. The contractual amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

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 June 30, 2006 and 2005:

	June 30, 2006	2005

Financial instruments whose contract amounts represent credit risk:		
Commitments	$357,841	$262,305
Standby letters of credit	23,880	27,830

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 June 30, 2006 is $1.480 million to purchase other equity securities.

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 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 June 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 $68.993 million, or 4.2%, to $1.556 billion at June 30, 2006 compared to $1.625 billion at December 31, 2005. Decreases in federal funds sold and interest bearing deposits, loans, cash and due from banks, non-marketable equity securities, core deposit intangibles and premises and equipment were partially offset by increases in both investments in debt and equity securities available for sale and held to maturity, other assets, accrued interest receivable and mortgage loans held for sale.

Cash and due from banks decreased $8.186 million, or 15.7%, to $43.821 million at June 30, 2006 compared to $52.007 million at December 31, 2005.

Federal funds sold and interest bearing deposits decreased $39.290 million, or 93.4%, to $2.769 million at June 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.

Total investments in debt and equity securities increased $6.528 million, or 1.5%, to $451.151 million at June 30, 2006 compared to $444.623 million at December 31, 2005. Included in the change were increases of $10.635 million, or 3.1%, in investments in securities available for sale and $3.344 million, or 4.4%, in securities held to maturity, offset somewhat by a decrease of $7.451 million, or 29.8% in non-marketable equity securities. 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 $29.710 million, or 3.0%, to $973.217 million at June 30, 2006 compared to $1.003 billion at December 31, 2005. Included in the change were decreases of $11.689 million, or 3.7%, in commercial, financial and agricultural loans; $5.942 million, or 6.9%, in installment and consumer loans; $5.918 million, or 4.2%, in residential real estate loans; and $5.738 million, or 1.2%, 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 $5.738 million decrease in commercial real estate loans was $15.826 million 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 six months of 2006 compared to the same period in 2005.

Mortgage loans held for sale increased $403,000, or 24.3%, to $2.064 million at June 30, 2006 compared to $1.661 million at December 31, 2005.

Premises and equipment decreased $340,000, or 1.5%, to $22.707 million at June 30, 2006 compared to $23.047 million at December 31, 2005. The decrease included depreciation and amortization expense on fixed assets of $1.290 million offset somewhat by purchases of $950,000.

Core deposit intangibles decreased $435,000, or 9.5%, to $4.134 million at June 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 $71.225 million, or 4.8%, to $1.410 billion at June 30, 2006 compared to $1.481 billion at December 31, 2005. There were decreases in all categories of liabilities, except federal funds purchased, repurchase agreements and notes payable.

Total deposits decreased $70.241 million, or 5.5%, to $1.206 billion at June 30, 2006 from $1.276 billion at December 31, 2005. Non-interest bearing deposits decreased $27.918 million, or 11.6%, to $212.905 million at June 30, 2006 from $240.823 million at December 31, 2005. The decrease of $27.918 in non-interest bearing deposits included a $16.578 million decrease in the balance of one account between December 31, 2005 and June 30, 2006. Interest bearing deposits decreased $42.323 million, or 4.1%, to $992.826 million at June 30, 2006 from $1.035 billion at December 31, 2005. Although the Company was not offering aggressive deposit pricing during the first half of 2006, interest bearing deposits increased $63.734 million, or 6.9%, from $929.092 million at June 30, 2005 to $992.826 million at June 30, 2006.

Federal funds purchased, repurchase agreements and notes payable increased $23.264 million, or 19.6%, to $141.716 million at June 30, 2006 from $118.452

million at December 31, 2005. This change was primarily due to an increase of $27.550 million in federal funds purchased offset somewhat by a decrease of $4.286 million in repurchase agreements.

Federal Home Loan Bank advances and other borrowings decreased $22.716 million, or 33.7%, to $44.670 million at June 30, 2006 compared to $67.386 million at December 31, 2005 primarily due to $21.000 million of matured FHLB advances and a net decrease of a $1.500 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 June 30, 2006 and December 31, 2005:

Carrying Value of Securities(1)
(in thousands)

	June 30,
Available-for-sale:	
Federal agencies	$327,5
Mortgage-backed securities	11,1
State and municipal	12,1
Marketable equity securities	2,8
Total available-for-sale	$353,7
Held-to-maturity:	
Federal agencies	$ 32,6
Mortgage-backed securities	29,4
State and municipal	17,7
Total held-to-maturity	$ 79,8
Non-marketable equity securities:	
Federal Home Loan Bank stock	$ 14,0
Other equity investments	3,4
Total non-marketable equity securities	$ 17,5
Total investment securities	$451,1

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

Maturities and Weighted Average Yields of
(dollars in thousands)

	June 30, 2006						
	1 year or less		1 to 5 years		5 to 10 years		
	Amount	Rate	Amount	Rate	Amount	Rate	
Securities available-for sale:							
Federal agencies	$101,866	3.32%	$225,725	3.99%	$ --	--	$
Mortgage-backed securities(1)	$ 1,236	3.50%	$ 5,192	5.06%	$ 4,680	4.13%	$
State and municipal (TE)(2)	$ 4,026	5.39%	$ 7,436	6.64%	$ 647	7.62%	$
Marketable equity securities(3) ...	$ --	--	$ --	--	$ --	--	$
Total	$107,128		$238,353		$ 5,327		$
Average Yield (TE) (2)		3.40%		4.09%		4.56%	
Securities held-to-maturity:							
Federal agencies	$ 11,457	2.98%	$ 16,849	2.99%	$ 4,322	4.10%	$
Mortgage-backed securities(1)	$ 266	2.45%	$ 23,438	4.94%	$ 5,539	5.71%	$
State and municipal (TE)(2)	$ 9,796	5.39%	$ 7,670	5.89%	$ 200	7.53%	$
Total	$ 21,519		$ 47,957		$ 10,061		$
Average Yield (TE)(2)		4.07%		4.41%		5.06%	
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		To
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Valu
Available-for-Sale:					
Federal agencies	$202,238	$ 2,258	$124,891	$ 2,930	$327,129
Mortgage-backed securities	2,803	45	6,711	270	9,514
State and municipal	--	--	3,183	70	3,183

Subtotal, debt securities	$205,041	$ 2,303	$134,785	$ 3,270	$339,826
Other	$ 1,643	$ 301	$ --	$ --	1,643
Total temporarily impaired securities	$206,684	$ 2,604	$134,785	$ 3,270	$341,469
Held-to-Maturity:					
Federal agencies	$ 96	$ 1	$ 31,443	$ 1,087	$ 31,539
Mortgage-backed securities	23,038	713	5,155	176	28,193
State and municipal	868	3	7,147	83	8,015
Total temporarily impaired securities	$ 24,002	$ 717	$ 43,745	$ 1,346	$ 67,747

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 June 30, 2006, the $3.270 million continuous unrealized loss greater than 12 months on available-for-sale securities was made up of thirty nine debt securities and was believed to be a temporary loss. None of the marketable equity securities available-for-sale had a continuous unrealized loss greater than 12 months. The $1.346 million continuous unrealized loss greater than 12 months on held-to-maturity securities was made up of forty four 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 June 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)

	June 30, 2006		December 31, 2005	
	Amount	Percentage	Amount	Percentage
Commercial, financial and agricultural	$ 308,172	31.22%	$ 319,861	31.47%
Real Estate - Commercial	463,768	46.98%	469,506	46.19%
Real Estate - Residential	134,386	13.62%	140,304	13.81%
Installment and consumer	80,786	8.18%	86,728	8.53%
Total loans	$ 987,112	100.00%	$1,016,399	100.00%

The balance of loans outstanding as of June 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	$185,302	$ 79,839	$ 43,031	$308,172
Real Estate - Commercial	152,183	207,421	104,164	$463,768
Real Estate - Residential	12,095	33,679	88,612	$134,386
Installment and consumer	18,103	29,785	32,898	$ 80,786
Total	$367,683	$350,724	$268,705	$987,112
Percentage of total loans outstanding.	37.25%	35.53%	27.22%	100.00%

Capital

Total shareholders' equity increased $2.232 million from December 31, 2005 to June 30, 2006. Treasury stock transactions were $1.673 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 $326,000 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	9,489
Treasury stock transactions, net	(1,673)
Additional paid in capital transactions, net	326
Cash dividends declared	(4,653)
Other comprehensive income	(1,257)
Shareholders' equity, June 30, 2006	$ 146,001

On June 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 $2.323 million was paid on July 21, 2006, to holders of record on July 7, 2006.

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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 June 30, 2006, that the Company and the Bank exceeded all capital adequacy requirements to which they are subject.

As of June 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:

	Amount	Ratio	Amount	Ratio	A
As of June 30, 2006:					
Total capital (to risk-weighted assets)					
Consolidated	$139,333	12.5%	$88,919	8.0%	
Main Street Bank & Trust	$129,681	11.8%	$87,824	8.0%	$
Tier I capital (to risk-weighted assets)					
Consolidated	$125,401	11.3%	$44,460	4.0%	
Main Street Bank & Trust	$115,834	10.6%	$43,912	4.0%	
Tier I capital (to average assets)					
Consolidated	$125,401	8.0%	$62,405	4.0%	
Main Street Bank & Trust	$115,834	7.5%	$62,012	4.0%	

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.

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

Rate Sensitivity of Earning Assets and Interest Bearing Liabiliti
(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	$ 2,769	$ --	$ --	$ -
Debt and equity securities (1)	14,351	19,457	41,848	69,75
Loans (2)	323,616	43,394	60,553	90,98
Total interest bearing assets ...	$ 340,736	$ 62,851	$ 102,401	$ 160,73
Interest bearing liabilities:				
Savings and interest bearing demand deposits	$ 58,029	$ 1,632	$ 2,448	$ 4,89

Money market savings deposits	272,555	--	--	-
Time deposits	22,999	58,630	116,909	140,67
Federal funds purchased, repurchase agreements, and notes payable	126,310	5,061	4,105	6,24
FHLB advances and other borrowings	11,075	24,000	2,075	2,52
Total interest bearing liabilities	$ 490,968	$ 89,323	$ 125,537	$ 154,32
Net asset (liability) funding gap	(150,232)	(26,472)	(23,136)	6,41
Repricing gap	0.69	0.70	0.82	1.0
Cumulative repricing gap	0.69	0.70	0.72	0.7

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 June 30, 2006, the Company was somewhat liability sensitive due to the levels of savings and interest 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 $1.502 million in the 1-30 days category and $1.767 million in the 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 June 30, 2006, the Company's RSA/RSL was 0.78, which was within the established guidelines.

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 June 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 June 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
June 30, 2006	4.6%	2.3%	(2.6%)	(5.2%)
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 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.

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 half 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 $47.476 million from December 31, 2005 to June 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 $76.030 million compared to $22.306 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 more cash used by deposits. Federal Home Loan Bank advances and other borrowings were $1.000 million during the first half of 2006 compared to $31.000 million during the same period in 2005 which was used mainly as a source of working capital (of which $20 million was repaid in July 2005). Cash used by Federal Home Loan Bank advances and other borrowings was $23.716 million during the first half of 2006 compared to $9.404 million during the same period in 2005. $21.000 million of the $23.716 million in 2006 was due to maturities of Federal Home Loan Bank advances. Cash used due to decreases in deposits was $70.241 million during the first six months of 2006 compared to $62.502 million during the same period in 2005. During the first half of 2006, the Company did not offer aggressive deposit pricing. During the first half of 2005, the Company expected deposits to decrease due to an anticipated outflow of short-term deposits attributable to the Company's Wealth Management division which had grown approximately $43 million during the second half of 2004.

More cash was provided by investing activities during the first half 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 loans during the first six months of 2006 was $28.200 million due to a decrease in gross loans, compared to cash used to fund loan growth of $21.484 million during the same period in 2005. The decrease in loans during the first half of 2006 is attributable to the Company's unwillingness to meet some of the underwriting and pricing available in the market. Cash used by investment activities during the first half of 2006 was $8.767 million compared to cash provided of $33.628 million during the same period in 2005. In 2006, cash used to purchase debt and equity securities of $61.619 million was somewhat offset by proceeds of $52.852 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. 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 $110.249 million from maturities, calls and sales o& 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 $76.621 million. In addition, $6.385 million was used to fund the acquisition of Citizens in 2005. Cash provided by operating activities during the first half of 2006 was $10.071 million compared to $8.248 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.

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 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 $13.895 million at June 30, 2006 compared to $13.472 million at December 31, 2005, an increase of $423,000. Net charge-offs were $477,000 and the provision totaled $900,000 during the first six months of 2006. The allowance for loan losses as a percentage of gross loans, including loans held-for-sale, was 1.40% at June 30, 2006, compared to 1.32% at December 31, 2005. Gross loans, including loans held-for-sale, decreased 2.8% to $989.176 million at June 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 169.8% at June 30, 2006 compared to 449.1% at December 31, 2005. Nonperforming loans increased from $3.000 million at December 31, 2005 to $8.182 million at June 30, 2006. The $5.182 million increase in nonperforming loans during the first six months of 2006 resulted from a $3.321 million increase in nonaccrual loans and an increase of $1.861 million in loans past due 90 days or more. The increase in nonaccrual loans included the addition of three commercial real estate loans to a real estate developer that totaled $4.282 million. The increase in 90-day delinquencies was due primarily to two commercial loans totaling $1.536 million to an owner of convenience stores falling 90 days past due. Increases in commercial, financial and agricultural loans and residential real estate loans made up the bulk of the remaining increase in nonaccrual and 90-day delinquencies. 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)

	June 30, 2006	June 30, 2005
Allowance for loan losses at beginning of year	$ 13,472	$ 9,650
Allocation for loan losses attributable to acquisition of Citizens	--	3,434
Charge-offs during period:		
Commercial, financial and agricultural	(468)	--
Commercial real estate	(130)	--
Residential real estate	(88)	(5)
Installment and consumer	(191)	(276)
Total	$ (877)	$ (281)
Recoveries of loans previously charged off:		
Commercial, financial and agricultural	$ 3	$ 16
Commercial real estate	--	5
Residential real estate	16	--
Installment and consumer	381	174
Total	$ 400	$ 195
Net (charge-offs) recoveries	$ (477)	$ (86)
Provision for loan losses	900	630
Allowance for loan losses at end of quarter	$ 13,895	$ 13,628
Ratio of net charge-offs to average net loans	(0.05)%	(0.01)%

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)

	June 30, 2006	December 31, 2005
Allocated:		
Commercial, financial and agricultural	$ 4,099	$ 4,433
Commercial real estate	7,478	5,991
Residential real estate	408	424
Installment and consumer	1,320	1,447
Total allocated allowance	$13,305	$12,295
Unallocated allowances	590	1,177
Total	$13,895	$13,472

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)

	June 30, 2006	December 31, 2005
Nonaccrual loans(1)	$ 5,555	$ 2,234
Loans past due 90 days or more	$ 2,627	$ 766
Restructured loans	$ 268	$ 324

Other Nonperforming Assets (dollars in thousands)

	June 30, 2006	December 31, 2005
Other real estate owned	$ 422	$ 188
Nonperforming other assets	$ 21	$ 36

Results of Operations

Results of Operations for the Six Months Ended June 30, 2006

Net income for the first six months of 2006 was $9.489 million, an $829,000, or 9.6%, increase from $8.660 million for the same period in 2005. Basic earnings per share increased $0.06, or 6.8%, to $0.94 per share in the first six months of 2006 from $0.88 per share in the first six months of 2005. Diluted earnings per share increased $0.06, or 6.9%, to $0.93 per share in the first six months of 2006 from $0.87 per share in the first six months of 2005.

The following schedule "Consolidated Average Balance Sheet and Interest Rates" provides details of average balances, interest income or 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)

	Six Months Ended June 30,				
	2006				
	Average Balance	Interest	Rate	Average Balance	
Assets					
Taxable investment securities(1)	$ 437,188	$ 8,686	4.01%	$ 289,578	$
Tax-exempt investment securities(1) (TE) .	31,446	957	6.14%	40,785	
Federal funds sold and interest bearing deposits(2)	21,925	697	6.41%	42,897	
Loans (3),(4) (TE)	973,090	34,162	7.08%	880,805	
Total interest bearing assets and interest income (TE)	$1,463,649	$ 44,502	6.13%	$1,254,065	$
Cash and due from banks	$ 44,730			$ 41,612	
Premises and equipment	22,936			19,786	
Other assets	59,447			68,383	
Total assets	$1,590,762			$1,383,846	
Liabilities and Shareholders' Equity					
Interest bearing demand deposits	$ 71,833	$ 227	0.64%	$ 75,350	$
Savings	488,719	6,865	2.83%	400,563	
Time deposits	466,888	8,528	3.68%	407,558	
Federal funds purchased, repurchase agreements, and notes payable	128,946	2,597	4.06%	111,681	
FHLB advances and other borrowings	51,670	1,262	4.93%	50,024	
Total interest bearing liabilities and interest expense	$1,208,056	$ 19,479	3.25%	$1,045,176	$
Noninterest bearing demand deposits	$ 145,452			$ 127,609	
Noninterest bearing savings deposits	73,447			68,181	

Other liabilities	18,307			13,694
Total liabilities	$1,445,262			$1,254,660
Shareholders' equity	145,500			129,186
Total liabilities and shareholders' equity	$1,590,762			$1,383,846
Interest spread (average rate earned minus average rate paid) (TE)			2.88%	
Net interest income (TE)		$ 25,023		$
Net yield on interest earnings assets (TE)			3.45%	

See next page for Notes 1-4.

Notes to Consolidated Average Balance Sheet and Interest Rates Tables:

(1) Investments in debt securities are included at carrying value. Income from taxable investment securities included a net loss on venture capital funds of approximately $121,000 in 2006 compared to a net gain of approximately $459,000 in 2005. Due to the nature of venture capital investments, future results cannot be predicted based on past performance.

(2) Federal funds sold and interest bearing deposits included approximately $154,000 in 2006 and $83,000 in 2005 of interest income from third party processing of cashier checks.

(3) Loans are net of allowance for loan losses and include mortgage loans held-for-sale. Nonaccrual loans are included in the total.

(4) Loan fees of approximately $842,000 and $661,000 in 2006 and 2005, respectively, are included in total loan income.

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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)

Six Months Ended June 30, 2006	Increase (Decrease) from Previous Year	Due to Volume	Due to Rate
Interest Income			
Taxable investment securities	$ 3,081	$ 2,929	$ 152
Tax-exempt investment securities (TE)	(252)	(283)	31
Federal funds sold and interest bearing deposits	(116)	(511)	395
Loans (TE)	6,838	3,030	3,808
Total interest income (TE)	$ 9,551	$ 5,165	$ 4,386
Interest Expense			
Interest bearing demand and savings deposits ..	$ 4,147	$ 603	$ 3,544
Time deposits	2,470	960	1,510
Federal funds purchased, repurchase agreements and notes payable	1,339	220	1,119
FHLB advances and other borrowings	89	39	50
Total interest expense	$ 8,045	$ 1,822	$ 6,223
Net Interest Income (TE)	$ 1,506	$ 3,343	$(1,837)

Net interest income on a tax-equivalent basis was $1.506 million, or 6.4%, higher for the first six months of 2006 compared to the same period of 2005. Total tax-equivalent interest income was $9.551 million, or 27.3%, higher in 2006 compared to 2005, and interest expense increased $8.045 million, or 70.4%. 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 slightly 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 all categories of interest bearing liabilities. The increase in interest expense from all categories of interest bearing liabilities was primarily due to higher rates.

The provision for loan losses recorded was $900,000 during the first six months of 2006 compared to $630,000 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.

The following table summarizes selected categories of non-interest income and non-interest expense for the six months ended June 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 $320,000 in stock option expense in the first six months of 2006, with $232,000 being allocated to salaries and benefits expense and $88,000 attributable to non-employee options being allocated to other non-interest expense.

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

Non-interest Income	06/30/2006	06/30/2005	$ change	% change
Remittance processing	$ 3,503	$ 3,403	$ 100	2.9%
Trust and brokerage fees (1)	3,902	3,652	250	6.8%
Service charges on deposit accounts	1,391	1,309	82	6.3%
Securities transactions, net (2)	279	35	244	697.1%
Gain on sales of mortgage loans, net (3) ...	276	397	(121)	(30.5%)
Other (4)	1,673	1,277	396	31.0%
Total non-interest income	$11,024	$10,073	$ 951	9.4%

Non-interest Expense	06/30/2006	06/30/2005	$ change	% change
Salaries and employee benefits (5)	$11,685	$11,228	$ 457	4.1%
Occupancy (6)	1,575	1,469	106	7.2%
Equipment	1,243	1,281	(38)	(3.0%)
Data processing (7)	1,457	1,103	354	32.1%
Office supplies	597	587	10	1.7%
Service charges from correspondent banks (8)	146	255	(109)	(42.7%)
Amortization of core deposit intangibles (9)	435	218	217	99.5%
Other (10)	3,209	2,862	347	12.1%
Total non-interest expense	$20,347	$19,003	$ 1,344	7.1%

Income tax expense increased $97,000, or 2.0%, during the first six months of 2006 compared to the same period in 2005. The effective tax rate decreased to 34.4% during the first six months of 2006 from 36.0% 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 10 above.

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

Net income for the second quarter of 2006 was $4.799 million, a $72,000, or 1.5%, increase from $4.727 million for the same period in 2005. Basic earnings per share increased $0.01, or 2.2%, to $0.47 per share during the second quarter of 2006 from $0.46 per share during the same period in 2005. Diluted earnings per share increased $0.02, or 4.4%, to $0.47 per share during the second quarter of 2006 from $0.45 per share during the same period in 2005.

The following schedule "Consolidated Average Balance Sheet and Interest Rates" provides details of average balances, interest income or 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 June 30,				
	2006				
	Average Balance	Interest	Rate	Average Balance	
Assets					
Taxable investment securities(1)	$ 437,504	$ 4,580	4.20%	$ 274,589	$
Tax-exempt investment securities(1) (TE) .	30,072	449	5.99%	39,922	
Federal funds sold and interest bearing deposits(2)	23,825	400	6.73%	56,615	
Loans (3),(4) (TE)	969,095	17,362	7.19%	999,918	
Total interest bearing assets and interest income (TE)	$1,460,496	$ 22,791	6.26%	$1,371,044	$
Cash and due from banks	$ 43,339			$ 44,525	
Premises and equipment	22,832			22,493	
Other assets	59,745			111,459	
Total assets	$1,586,412			$1,549,521	
Liabilities and Shareholders' Equity					
Interest bearing demand deposits	$ 71,639	$ 117	0.66%	$ 84,260	$
Savings	488,790	3,649	2.99%	432,866	
Time deposits	466,863	4,436	3.81%	472,474	
Federal funds purchased, repurchase agreements, and notes payable	134,926	1,446	4.30%	119,966	
FHLB advances and other borrowings	45,095	581	5.17%	71,518	
Total interest bearing liabilities and interest expense	$1,207,313	$ 10,229	3.40%	$1,181,084	$
Noninterest bearing demand deposits	$ 141,417			$ 139,036	
Noninterest bearing savings deposits	74,016			71,468	
Other liabilities	17,543			14,200	
Total liabilities	$1,440,289			$1,405,788	
Shareholders' equity	146,123			143,733	
Total liabilities and shareholders' equity	$1,586,412			$1,549,521	

Interest spread (average rate earned minus average rate paid) (TE)		2.86%
Net interest income (TE)	$ 12,562	$
Net yield on interest earnings assets (TE)		3.45%

See next page for Notes 1-4.

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 June 30, 2006

	Increase (Decrease) from Previous Year	Due to Volume	Due to Rate
Interest Income			
Taxable investment securities	$ 1,339	$ 1,789	$ (450)
Tax-exempt investment securities (TE)	(143)	(280)	137
Federal funds sold and interest bearing deposits	(192)	(444)	252
Loans (TE)	1,446	(503)	1,949
Total interest income (TE)	$ 2,450	$ 562	$ 1,888
Interest Expense			
Interest bearing demand and savings deposits ...	$ 1,956	$ 163	$ 1,793
Time deposits	843	(43)	886
Federal funds purchased, repurchase agreements and notes payable	695	104	591
FHLB advances and other borrowings	(206)	(325)	119
Total interest expense	$ 3,288	$ (101)	$ 3,389

Net Interest Income (TE)	$ (838)	$ 663	$(1,501)

Net interest income on a tax-equivalent basis was $838,000, or 6.3%, lower for the second quarter of 2006 compared to the second quarter of 2005. Total tax-equivalent interest income was $2.450 million, or 12.0%, higher in 2006 compared to 2005, while interest expense increased $3.288 million, or 47.4%. The increase in tax-equivalent interest income was due to an increase in both rates and volume. The increase in interest expense was due to an increase in rates offset slightly 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 somewhat 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 somewhat by a decrease in rates. The decreases in interest income from federal funds sold and interest bearing deposits and tax-exempt investment securities were due to decreases in volume, offset somewhat by increases in rates during the second 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 slightly by a decrease in interest expense on FHLB advances and other borrowings. The increases in interest expense on interest bearing demand and savings deposits, and federal funds purchased, repurchase agreements and notes payable were due to increases in both rates and volume during the second quarter of 2006 compared to the same period in 2005. The increase in interest expense from time deposits was due to an increase in rates, offset slightly by lower volume. 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 the second quarter of 2006 compared to $300,000 in the second quarter of 2005, an increase of 50.0%. 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.

The following table summarizes selected categories of non-interest income and non-interest expense for the three months ended June 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 second quarter of 2006, with $119,000 being allocated to salaries and benefits expense and $44,000 attributable to non-employee options being allocated to other non-interest expense.

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

Non-interest Income	06/30/2006	06/30/2005	$ change	% change
Remittance processing	$ 1,738	$ 1,696	$ 42	2.5%
Trust and brokerage fees (1)	1,987	1,810	177	9.8%
Service charges on deposit accounts	706	783	(77)	(9.8%)
Securities transactions, net (2)	12	(155)	167	107.7%
Gain on sales of mortgage loans, net (3)	150	260	(110)	(42.3%)
Other (4)	912	664	248	37.3%
Total non-interest income	$ 5,505	$ 5,058	$ 447	8.8%

Non-interest Expense	06/30/2006	06/30/2005	$ change	% change
Salaries and employee benefits (5)	$ 5,764	$ 6,281	$ (517)	(8.2%)
Occupancy	783	807	(24)	(3.0%)
Equipment	628	675	(47)	(7.0%)
Data processing (6)	719	552	167	30.3%
Office supplies	301	289	12	4.2%
Service charges from correspondent banks (7)	82	145	(63)	(43.4%)
Amortization of core deposit intangibles	217	218	(1)	(0.5%)
Other (8)	1,808	1,587	221	13.9%
Total non-interest expense	$ 10,302	$ 10,554	$ (252)	(2.4%)

Income tax expense decreased $314,000, or 11.8%, during the second quarter of 2006 compared to the same period in 2005. The effective tax rate decreased to 32.9% during the second quarter of 2006 from 36.1% in the second quarter of 2005. This was partly due to a $205,000 tax credit resulting from the loss from a low-income housing project investment described in footnote 8 above.

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. FirsTech 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.

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 six-months ended June 30, 2006 and 2005:

As of and for the Six Months Ended:	Banking Services	Remittance Services	Company	Elimination
June 30, 2006				
Total interest income	$ 44,159	$ 12	$ 16	$ (31
Total interest expense	19,327	--	183	(31
Provision for loan losses	900	--	--	--
Total non-interest income	7,662	3,753	250	(641
Total non-interest expense	17,787	2,248	953	(641
Income before income tax	13,807	1,517	(870)	--
Income tax expense	4,886	637	(558)	--
Net income	8,921	880	(312)	--
Goodwill	20,736	--	--	--
Total assets	1,542,104	4,550	155,474	(145,984
Depreciation & amortization - fixed assets	1,115	148	27	--
June 30, 2005				
Total interest income	$ 33,832	$ 6	$ 716	$ (32
Total interest expense	11,366	--	100	(32
Provision for loan losses	630	--	--	--
Total non-interest income	7,104	3,468	30	(529
Total non-interest expense	16,816	2,117	599	(529
Income before income tax	12,124	1,357	47	--
Income tax expense	4,286	571	11	--
Net income	7,838	786	36	--
Goodwill	20,819	--	--	--
Total assets	1,501,191	2,879	153,697	(141,965
Depreciation & amortization - fixed assets	1,017	205	27	--

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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.

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 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.

The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations and future prospects of the Company and its subsi$iaries include, but are not limited to, the following:

- 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.

- The costs, effects and outcomes of existing or future litigation.

- 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.

- 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 June 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 June 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 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 June 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.

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)
April 1 - April 30, 2006	--	$ --	--	148,600
May 1 - May 31, 2006	30,418	$ 30.55	30,382	118,218
June 1 - June 30, 2006	30,500	$ 30.60	30,500	87,718
Total	60,918	$ 30.58	60,882	87,718

Item 3. Defaults Upon Senior Securities

None

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

On May 17, 2006, the Company's annual meeting of shareholders was held. At the meeting, security holders elected directors to serve one year terms. There were 10,132,839 issued and outstanding shares of common stock entitled to vote at the annual meeting. The voting at the annual meeting was as follows:

1. David J. Downey, Van A. Dukeman, Larry D. Haab, Frederic L. Kenney, Gregory B. Lykins, August C. Meyer, Jr., George T. Shapland, Thomas G. Sloan, and H. Gale Zacheis, M.D. were elected to serve as directors for one year with terms expiring at the next annual meeting in 2007.

Election of Directors:	Votes For	Votes Withheld
David J. Downey	7,373,770	102,269
Van A. Dukeman	7,367,615	108,424
Larry D. Haab	7,370,362	105,677
Frederic L. Kenney	7,371,653	104,386
Gregory B. Lykins	7,368,770	107,269
August C. Meyer, Jr.	7,339,894	136,145
George T. Shapland	7,370,362	105,677
Thomas G. Sloan	7,373,770	102,269
H. Gale Zacheis, M.D.	7,368,678	107,361

Item 5. Other Information

None

Item 6. Exhibits

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.

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 duty authorized.

MAIN STREET TRUST, INC.

Date: August 9, 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