COMMUNITY BANCORP /VT
Form 10-Q
August 09, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2006

OR

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

For the transition period from________to________

Commission File Number 000-16435

COMMUNITY BANCORP.

Vermont	03-0284070
(State of Incorporation)	(IRS Employer Identification Number)
4811 US Route 5, Derby, Vermont	05829
(Address of Principal Executive Offices)	(zip code)

Registrant's Telephone Number: (802) 334-7915

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 for such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes (X) No ( )

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer ( ) Accelerated filer ( ) Non-accelerated filer (X)

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

At August 9, 2006, there were 4,099,875 shares outstanding of the Corporation's common stock.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements (Unaudited)

The following are the consolidated financial statements for Community Bancorp. and Subsidiary, "the Company".

COMMUNITY BANCORP. AND SUBSIDIARY
Consolidated Balance Sheets

	June 30 2006 (Unaudited)	December 31 2005	June 30 2005 (Unaudited)
Assets			
Cash and due from banks	$ 7,530,188	$ 11,066,745	$ 8,626,094
Federal funds sold and overnight deposits	5,279	6,508,194	74,085
Total cash and cash equivalents	7,535,467	17,574,939	8,700,179
Securities held-to-maturity (fair value $13,554,000 at 06/30/06,			
$28,444,000 at 12/31/05 and $18,387,000 at 06/30/05)	13,574,007	28,391,665	18,325,736
Securities available-for-sale	31,240,498	36,454,426	42,829,839
Restricted equity securities, at cost	2,940,450	3,252,150	3,015,750
Loans held-for-sale	901,132	1,586,582	868,597
Loans	263,838,225	250,622,955	233,864,129
Allowance for loan losses	(2,238,870)	(2,189,187)	(2,170,363)
Unearned net loan fees	(677,077)	(684,106)	(695,466)
Net loans	260,922,278	247,749,662	230,998,300
Bank premises and equipment, net	11,751,840	11,617,119	9,422,202
Accrued interest receivable	1,542,044	1,789,251	1,524,401
Other assets	5,588,945	5,411,770	4,765,294
Total assets	$ 335,996,661	$ 353,827,564	$ 320,450,298

Liabilities and Shareholders' Equity			
Liabilities			
Deposits:			
Demand, non-interest bearing	$ 47,932,083	$ 45,848,972	$ 44,801,154
NOW and money market accounts	56,375,837	100,078,793	68,872,277
Savings	45,327,841	45,281,605	47,233,747
Time deposits, $100,000 and over	28,775,085	25,621,541	22,651,208
Other time deposits	92,275,756	77,481,500	75,985,336
Total deposits	270,686,602	294,312,411	259,543,722
Federal funds purchased and other borrowed funds	17,563,000	10,040,000	17,899,000
Repurchase agreements	14,917,551	17,347,140	12,558,291
Accrued interest and other liabilities	3,267,097	3,004,679	1,955,273
Total liabilities	306,434,250	324,704,230	291,956,286
Shareholders' Equity			
Common stock - $2.50 par value; 6,000,000 shares authorized			
and 4,307,911 shares issued at 06/30/06, 4,279,884 shares			
issued at 12/31/05 and 4,254,402 shares issued at 06/30/05	10,769,778	10,699,709	10,636,004
Additional paid-in capital	21,684,056	21,324,481	20,967,782
Retained earnings (deficit)	279,788	165,983	(387,121)
Accumulated other comprehensive loss	(556,479)	(452,118)	(283,453)
Less: treasury stock, at cost; 209,510 shares at 06/30/06, 209,510			
shares at 12/31/05, and 198,609 shares at 06/30/05	(2,614,732)	(2,614,721)	(2,439,200)
Total shareholders' equity	29,562,411	29,123,334	28,494,012
Total liabilities and shareholders' equity	$ 335,996,661	$ 353,827,564	$ 320,450,298

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

COMMUNITY BANCORP. AND SUBSIDIARY

Consolidated Statements of Income

(Unaudited)

For The Second Quarter Ended June 30,	2006	2005
Interest income		
Interest and fees on loans	$ 4,592,785	$ 3,752,190
Interest on debt securities		

Taxable	281,388	376,879
Tax-exempt	262,147	259,420
Dividends	41,976	31,746
Interest on federal funds sold and overnight deposits	9,845	1,713
Total interest income	5,188,141	4,421,948
Interest expense		
Interest on deposits	1,575,898	1,122,531
Interest on federal funds purchased and other borrowed funds	188,415	148,798
Interest on repurchase agreements	83,106	47,582
Total interest expense	1,847,419	1,318,911
Net interest income	3,340,722	3,103,037
Provision for loan losses	37,500	37,500
Net interest income after provision	3,303,222	3,065,537
Non-interest income		
Service fees	324,160	304,902
Other income	514,233	491,401
Total non-interest income	838,393	796,303
Non-interest expense		
Salaries and wages	1,167,483	1,134,134
Pension and other employee benefits	422,396	408,644
Occupancy expenses, net	557,074	497,646
Other expenses	973,271	913,311
Total non-interest expense	3,120,224	2,953,735
Income before income taxes	1,021,391	908,105
Applicable income taxes	189,291	151,061
Net Income	$ 832,100	$ 757,044
Earnings per share based on weighted average shares outstanding	$0.20	$0.19
Weighted average number of common shares used in computing earnings per share	4,089,252	4,047,494
Dividends declared per share	$0.17	$0.17
Book value per share on shares outstanding at June 30,	$7.21	$7.03

Per share data for prior periods have been restated to reflect a 5% stock dividend declared in May 2005.
The accompanying notes are an integral part of these consolidated financial statements.

COMMUNITY BANCORP. AND SUBSIDIARY

Consolidated Statements of Income

(Unaudited)

For The Six Months Ended June 30,	2006	2005
Interest income		
Interest and fees on loans	$ 8,858,875	$ 7,445,551
Interest on debt securities		
Taxable	587,199	786,728
Tax-exempt	506,932	484,884
Dividends	84,419	57,947
Interest on federal funds sold and overnight deposits	25,162	4,001
Total interest income	10,062,587	8,779,111
Interest expense		
Interest on deposits	2,983,762	2,159,579
Interest on borrowed funds	320,326	257,802
Interest on repurchase agreements	160,308	81,416
Total interest expense	3,464,396	2,498,797
Net interest income	6,598,191	6,280,314
Provision for loan losses	75,000	75,000
Net interest income after provision	6,523,191	6,205,314
Non-interest income		
Service fees	636,345	590,456
Other income	871,672	900,436
Total non-interest income	1,508,017	1,490,892
Non-interest expense		
Salaries and wages	2,332,013	2,272,605
Pension and other employee benefits	838,564	813,308
Occupancy expenses, net	1,128,972	1,011,553
Other expenses	1,933,901	1,808,084
Total non-interest expense	6,233,450	5,905,550
Income before income taxes	1,797,758	1,790,656
Applicable income taxes	299,716	303,471
Net Income	$ 1,498,042	$ 1,487,185

Earnings per share on weighted average shares outstanding	$0.37	$0.37
Weighted average number of common shares used in computing earnings per share	4,082,446	4,041,561
Dividends declared per share	$0.34	$0.33
Book value per share on shares outstanding at June 30,	$7.21	$7.03

Per share data for prior periods have been restated to reflect a 5% stock dividend declared in May 2005.
The accompanying notes are an integral part of these consolidated financial statements.

COMMUNITY BANCORP. AND SUBSIDIARY
Consolidated Statements of Cash Flows
(Unaudited)

For the Six Months Ended June 30,	2006	2005
Cash Flows from Operating Activities:		
Net Income	$ 1,498,042	$ 1,487,185
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and amortization	436,667	382,887
Provision for loan losses	75,000	75,000
Deferred income taxes	(33,037)	73,877
Net gain on sale of loans	(145,375)	(181,526)
(Gain) loss on sale or disposal of fixed assets	(818)	8,507
Gain on sale of other real estate owned	0	(7,710)
Gain on investment in Trust LLC	(43,152)	(7,526)
Amortization of bond premium, net	55,806	142,769
Proceeds from sales of loans held for sale	12,749,893	12,933,412
Originations of loans held for sale	(11,919,068)	(11,787,086)
Increase (decrease) in taxes payable	207,752	(247,555)
Decrease in interest receivable	247,207	128,426
Increase in mortgage servicing rights	(52,928)	(78,353)
Increase in other assets	(177,785)	(111,183)
Amortization of limited partnerships	191,640	169,500
Decrease in unamortized loan fees	(7,029)	(68,308)
Increase in interest payable	46,208	74,349
(Decrease) increase in accrued expenses	(1,574)	41,936
Increase (decrease) in other liabilities	19,590	(35,957)
Net cash provided by operating activities	3,147,039	2,992,644

Cash Flows from Investing Activities:		
Investments - held to maturity		
Maturities and paydowns	24,642,439	19,647,449
Purchases	(9,824,781)	(6,390,171)
Investments - available for sale		
Sales and maturities	6,000,000	9,000,000
Purchases	(1,000,000)	(1,000,000)
Proceeds from sale (purchase) of restricted equity securities	311,700	(700,300)
Payment for investment contributions in limited partnership	(22,222)	(643,799)
Increase in loans, net	(13,273,046)	(6,166,023)
Capital expenditures, net	(570,571)	(1,756,476)
Proceeds from sales of other real estate owned	0	100,510
Recoveries of loans charged off	32,459	33,673
Net cash provided by investing activities	6,295,978	12,124,863
Cash Flows from Financing Activities:		
Net decrease in demand, NOW, money market and savings accounts	(41,573,609)	(23,609,385)
Net increase in time deposits	17,947,800	547,236
Net decrease in repurchase agreements	(2,429,589)	(2,349,227)
Net increase in federal funds purchased and other borrowed funds	7,523,000	11,492,000
Payments to acquire treasury stock	(11)	(2,838)
Dividends paid	(950,080)	(885,920)
Net cash used in financing activities	(19,482,489)	(14,808,134)
Net (decrease) increase in cash and cash equivalents	(10,039,472)	309,373
Cash and cash equivalents:		
Beginning	17,574,939	8,390,806
Ending	$ 7,535,467	$ 8,700,179
Supplemental Schedule of Cash Paid During the Period		
Interest	$ 3,418,188	$ 2,424,448
Income taxes	$ 125,000	$ 525,000
Supplemental Schedule of Noncash Investing and Financing Activities:		
Change in unrealized loss on securities available-for-sale	$ (158,122)	$ (173,900)
Other real estate owned acquired in settlement of loans	$ 0	$ 10,000

Dividends Paid		
Dividends declared	$ 1,384,237	$ 1,339,986
Increase in dividends payable attributable to dividends declared	(2,427)	(36,911)
Dividends reinvested	(431,730)	(417,155)
	$ 950,080	$ 885,920
Stock Dividends	$ 0	$ 3,310,331

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION AND CONSOLIDATION

The interim consolidated financial statements of Community Bancorp. and Subsidiary are unaudited. All significant intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, all adjustments necessary for fair presentation of the financial condition and results of operations of the Company contained herein have been made. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2005, contained in the Company's Annual Report on Form 10-K, as amended on Form 10-K/A, for the year ended December 31, 2005.

NOTE 2. RECENT ACCOUNTING DEVELOPMENTS

Statement of Financial Accounting Standards (SFAS) No. 156, *Accounting for Servicing of Financial Assets-an amendment to FASB Statement No. 140*, requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable. Servicing assets and servicing liabilities will subsequently be reported using the amortization method or the fair value measurement method. An entity should adopt this Statement as of the beginning of its first fiscal year that begins after September 15, 2006 with earlier application permitted with certain restrictions. The initial application of the fair value measurement method would be reported as a cumulative effect adjustment to beginning retained earnings. The Statement requires certain disclosures about the basis for measurement and regarding risks, activity, and fair value of servicing assets and of servicing liabilities. Management does not expect this SFAS No.156 to have a material impact on the Company's financial statements.

In July, 2006 FASB issued Financial Accounting Standards Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attributable for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is analyzing effects of FIN 48.

NOTE 3. EARNINGS PER SHARE

Earnings per common share amounts are computed based on the weighted average number of shares of common stock issued during the period and reduced for shares held in Treasury.

NOTE 4. COMPREHENSIVE INCOME

Accounting principles generally require recognized revenue, expenses, gains, and losses to be included in net income. Certain changes in assets and liabilities, such as the after-tax effect of unrealized gains and losses on available-for-sale securities, are not reflected in the statement of income, but the cumulative effect of such items from period-to-period is reflected as a separate component of the equity section of

the balance sheet (accumulated other comprehensive income or loss). Other comprehensive income or loss, along with net income, comprises the Company's total comprehensive income.

The Company's total comprehensive income for the comparison periods is calculated as follows:

For the second quarter ended June 30,	2006	2005
Net Income	$ 832,100	$ 757,044
Other comprehensive income (loss), net of tax:		
Unrealized holding gains (losses) on available-for-sale		
securities arising during the period	(121,444)	210,289
Tax effect	41,291	(71,498)
Other comprehensive income (loss), net of tax	(80,153)	138,791
Total comprehensive income	$ 751,947	$ 895,835

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For the six months ended June 30,	2006	2005
Net Income	$ 1,498,042	$ 1,487,185
Other comprehensive loss, net of tax:		
Unrealized holding losses on available-for-sale		
securities arising during the period	(158,122)	(173,900)
Tax effect	53,761	59,126
Other comprehensive loss, net of tax	(104,361)	(114,774)
Total comprehensive income	$ 1,393,681	$ 1,372,411

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
for the Period Ended June 30, 2006

FORWARD-LOOKING STATEMENTS

The Company's Management's Discussion and Analysis of Financial Condition and Results of Operations may contain certain forward-looking statements about the Company's operations, financial condition and business. When used therein, the words "believes," "expects," "anticipates," "intends," "estimates," "plans," "predicts," or similar expressions, indicate that management of the Company is making forward-looking statements.

Forward-looking statements are not guarantees of future performance. They necessarily involve risks, uncertainties and assumptions. Future results of the Company may differ materially from those expressed in these forward-looking statements. Examples of forward looking statements contained in this discussion include, but are not limited to, management's expectations as to future asset growth, income trends, results of operations and other matters reflected in the Overview section, estimated contingent liability related to the Company's participation in the Federal Home Loan Bank (FHLB) Mortgage Partnership Finance (MPF) program, assumptions made within the asset/liability management process, and management's expectations as to the future interest rate environment and the Company's related liquidity level. Although these statements are based on management's current expectations and estimates, many of the factors that could influence or determine actual results are unpredictable and not within the Company's control. Readers are cautioned not to place undue reliance on such statements as they speak only as of the date they are made. The Company claims the protection of the safe harbor for forward-looking statements provided in the Private Securities Litigation Reform Act of 1995.

Factors that may cause actual results to differ materially from those contemplated by these forward-looking statements include, among others, the following possibilities: (1) competitive pressures increase among financial services providers in the Company's northern New England market area or in the financial services industry generally, including competitive pressures from nonbank financial service providers, from increasing consolidation and integration of financial service providers, and from changes in technology and delivery systems; (2) interest rates change in such a way as to reduce the Company's margins; (3) general economic or monetary conditions, either nationally or regionally, are less favorable than expected, resulting in a deterioration in credit quality or a diminished demand for the Company's products and services; and (4) changes in laws or government rules, or the way in which courts interpret those laws or rules, adversely affect the Company's business.

OVERVIEW

The following Management's Discussion and Analysis explains in detail the results of the second quarter and the first six months of 2006.

The Company's net income for the second quarter of 2006 was $832,100 or $0.20 per share, compared to $757,044, or $0.19 per share for the same period in 2005. Net interest income, after a provision for loan loss for the quarter of $37,500, increased $237,685 for the second quarter of 2006 compared to the same quarter in 2005, an increase of

7.75% between years. Non-interest income for the second quarter of 2006 was ahead of the second quarter last year by $42,090. This modest increase was a challenge to achieve considering the decline in originations of residential mortgage loans to be sold on the secondary market. Non-interest expenses were $166,489 greater for the second quarter of 2006 compared to the same quarter last year. Most increases were normal increases in the cost of doing business; however, contributing to the increase in expenses was a 12% increase in occupancy expenses. Some of this increase is due to the expansion of the operation center at the Derby location as well as an increase in energy costs. Outside agency expenses continue to increase as the Company must rely on professional advice and counsel in this ever changing and challenging industry.

In May, 2006, the Company paid a cash dividend of $0.17 per share. Another cash dividend of $0.17 per share was declared in June, 2006, payable in the third quarter.

The Company's total assets increased from $320.5 million at June 30, 2005, to $336.0 million at June 30, 2006. Loans and loans held for sale increased by $30.0 million while securities available for sale decreased by $11.6 million reflecting the continuing high demand for loans. Total assets at June 30, 2006, however were down $17.8 million from December 31, 2005. It is normal for the Company to see a decline in assets at the end of the second quarter. Many municipal loans mature at the end of June and new municipal loans are booked during the first weeks of the third quarter. On June 30, 2006, $22 million in municipal loans matured and will be replaced with a combination of renewals and new loans that total $20 million. Total deposits increased $11.1 million year to year, but decreased by $23.6 million from December 31, 2005 to June 30, 2006. This decrease is due in part to the runoff of the municipal non-arbitrage deposit accounts that are tied to the municipal loans that mature. These balances will be replaced when the new municipal loans are booked. As deposit rates have become more favorable, there has been some growth in time deposits. Deposit growth, however, has not kept pace with loan growth, therefore, the Company has had to rely more on borrowed funds and deplete the investment portfolio.

The following pages describe the financial results of our first quarter in much more detail. Please take the time to read them to more fully understand the six months ended June 30, 2006 in relation to the 2005 comparison period. The discussion below should be read in conjunction with the Consolidated Financial Statements of the Company and related notes included in this report and with the Company's Annual Report on Form 10-K, as amended on Form 10-K/A, for the year ended December 31, 2005. This report includes forward-looking statements within the meaning of the Securities and Exchange Act of 1934 (the "Exchange Act").

CRITICAL ACCOUNTING POLICIES

The Company's consolidated financial statements are prepared according to accounting principles generally accepted in the United States of America. The preparation of such financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities in the consolidated financial statements and related notes. The Securities and Exchange Commission (SEC) has defined a company's critical accounting policies as the ones that are most important to the portrayal of the Company's financial condition and results of operations, and which require the Company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Because of the significance of these estimates and assumptions, there is a high likelihood that materially different amounts would be reported for the Company under different conditions or using different assumptions or estimates.

Management evaluates on an ongoing basis its judgment as to which policies are considered to be critical. Management believes that the calculation of the allowance for loan losses (ALL) is a critical accounting policy that requires the most significant judgments and estimates used in the preparation of the Company's consolidated financial statements. In estimating the ALL, management utilizes historical experience as well as other factors including the effect of changes in the local real estate market on collateral values, use of current economic indicators and their probable impact on borrowers and changes in delinquent, non-performing or impaired loans. Management's estimates used in the ALL may increase or decrease based on changes in these factors resulting in adjustments to the Company's provision for loan losses. Actual results could differ significantly from these estimates under different assumptions, judgments or conditions.

Occasionally, the Company acquires property in connection with foreclosures or in satisfaction of debt previously contracted. To determine the value of property acquired in foreclosure, management often obtains independent appraisals for significant properties. Because the extent of any recovery on these loans depends largely on the amount the Company is able to realize upon liquidation of the underlying collateral, the recovery of a substantial portion of the carrying amount of foreclosed real estate is susceptible to changes in local market conditions. The amount of the change that is reasonably possible cannot be estimated. In addition, the Office of the Comptroller of the Currency (OCC), the primary regulatory agency for the Company's national bank subsidiary, as an integral part of its examination process, periodically reviews the Company's allowance for losses on loans and foreclosed real estate. The OCC may require the Company to recognize additions to the allowances based on their judgments about information available to them at the time of their examination. In addition, the Company is subject to the jurisdiction of the SEC, which could require the Company to make adjustments to the ALL (including downward adjustments) in its consolidated financial statements if the SEC were to review the Company's periodic filings and deemed such adjustment to be appropriate.

Companies are required to perform periodic reviews of individual securities in their investment portfolios to determine whether decline in the value of a security is other than temporary. A review of other-than-temporary impairment requires companies to make certain judgments regarding the materiality of the decline, its effect on the financial statements and the probability, extent and timing of a valuation recovery and the company's intent and ability to hold the security. Pursuant to these requirements, management assesses valuation declines to determine the extent to which such changes are attributable to fundamental factors specific to the issuer, such as financial condition, business prospects or other factors or market-related factors, such as interest rates. Declines in the fair value of securities below their cost that are deemed to be other than temporary are recorded in earnings as realized losses.

Under current accounting rules, mortgage servicing rights associated with loans originated and sold, where servicing is retained, are capitalized and included in other assets in the consolidated balance sheet. Mortgage servicing rights are amortized into noninterest income in proportion to, and over the period of, estimated future net servicing income of the underlying financial assets. Mortgage servicing rights are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. The value of capitalized servicing rights represents the present value of the future servicing fees arising from the right to service loans in the portfolio. The carrying value of the mortgage servicing rights is periodically reviewed for impairment based on a determination of fair value and impairment, if any, is recognized through a valuation allowance and is recorded as amortization of other assets. Critical accounting policies for mortgage servicing rights relate to the initial valuation and subsequent impairment tests. The methodology used to determine the valuation of mortgage servicing rights requires the development and use of a number of estimates, including anticipated principal amortization and prepayments of that principal balance. Events that may significantly affect the estimates used are changes in interest rates and the payment performance of the underlying loans.

Management utilizes numerous techniques to estimate the carrying value of various assets held by the Company, including, but not limited to, property, plant and equipment, mortgage servicing rights, and deferred taxes. The assumptions management considers in making these estimates are based on historical experience and on various other factors that are believed to be reasonable under the circumstances. Nevertheless, predictions are inherently uncertain and management acknowledges that the use of different estimates or assumptions could produce different estimates of carrying values.

RESULTS OF OPERATIONS

The Company's net income for the second quarter of 2006 was $832,100, representing an increase of 9.9% over net income of $757,044 for the second quarter of 2005. This resulted in earnings per share of $0.20 and $0.19, respectively, for the second quarter of 2006 and 2005. Net income for the first six months of 2006 was $1.5 million, representing an increase of just under one percent over net income of $1.49 million for the first six months of 2005. Core earnings (net interest income) for the second quarter of 2006 increased 7.66% over the second quarter of 2005, and an increase of 5.06% is noted for the first six months of 2006 compared to the same period in 2005.

Return on average assets (ROA), which is net income divided by average total assets, measures how effectively a corporation uses its assets to produce earnings. Return on average equity (ROE), which is net income divided by average shareholders' equity, measures how effectively a corporation uses its equity capital to produce earnings. Increases were noted in both ROA and ROE for the second quarter of 2006 compared to 2005, while decreases in ROA and ROE were noted for the first six months of 2006 compared to 2005. The following table shows these ratios annualized for the comparison periods.

For the quarter ended June 30,	2006	2005
Return on Average Assets	.96%	.91%
Return on Average Equity	11.38%	10.73%

For the first six months ended June 30,	2006	2005
Return on Average Assets	.87%	.90%
Return on Average Equity	10.32%	10.56%

INTEREST INCOME LESS INTEREST EXPENSE (NET INTEREST INCOME)

Net interest income, the difference between interest income and expense, represents the largest portion of the Company's earnings, and is affected by the volume, mix, and rate sensitivity of earning assets as well as by interest bearing liabilities, market interest rates and the amount of non-interest bearing funds which support earning assets. The three tables below provide a visual comparison of the consolidated figures, and are stated on a tax equivalent basis assuming a federal tax rate of 34%. The Company's corporate tax rate is 34%, therefore, to equalize tax-free and taxable income in the comparison, we must divide the tax-free income by 66%, with the result that every tax-free dollar is equal to $1.52 in taxable income.

The following table shows the reconciliation between reported net interest income and tax equivalent, net interest income for the six-month comparison period, of 2006 and 2005:

For the six months ended June 30,	2006	2005
Net interest income as presented	$ 6,598,191	$ 6,280,314
Effect of tax-exempt income	261,147	249,789
Net interest income, tax equivalent	$ 6,859,338	$ 6,530,103

AVERAGE BALANCES AND INTEREST RATES

The table below presents average earning assets and average interest-bearing liabilities supporting earning assets. Interest income (excluding interest on non-accrual loans) and interest expense are both expressed on a tax equivalent basis, both in dollars and as a rate/yield for the 2006 and 2005 comparison periods. Loans are stated before deduction of non-accrual loans, unearned discount and allowance for loan losses.

	For the Six Months Ended June 30:					
		2006			2005	
	Average Balance	Income/ Expense	Rate/ Yield	Average Balance	Income/ Expense	Rate/ Yield
INTEREST EARNING ASSETS						
Loans (gross)	$ 260,932,362	$ 8,858,875	6.85%	$ 230,948,196	$ 7,445,551	6.50%
Taxable Investment Securities	33,285,623	587,199	3.56%	47,704,437	786,728	3.33%
Tax Exempt Investment Securities	28,095,879	768,079	5.51%	32,344,670	734,673	4.58%
Federal Funds Sold	497,127	9,648	3.91%	154,558	1,805	2.36%
Sweep Account	683,265	15,514	4.58%	181,674	2,196	2.44%
Other Securities	3,241,563	84,419	5.25%	2,780,033	57,947	4.20%
TOTAL	$ 326,735,819	$ 10,323,734	6.37%	$ 314,113,568	$ 9,028,900	5.80%
INTEREST BEARING LIABILITIES						
Savings Deposits	$ 45,780,275	$ 79,223	0.35%	$ 47,071,363	$ 81,526	0.35%
NOW & Money Market Funds	85,791,004	846,202	1.99%	88,697,030	679,328	1.54%
Time Deposits	112,251,551	2,058,337	3.70%	97,962,679	1,398,725	2.88%
Federal Funds Purchased and						
Other Borrowed Funds	13,062,719	320,326	4.95%	14,006,824	256,490	3.69%
Notes Payable	0	0	0.00%	46,961	1,311	5.63%
Repurchase Agreements	16,558,572	160,308	1.95%	12,759,342	81,417	1.29%

TOTAL	$ 273,444,121	$ 3,464,396	2.55%	$ 260,544,199	$ 2,498,797 1.93%
Net Interest Income		$ 6,859,338			$ 6,530,103
Net Interest Spread(1)			3.82%		3.87%
Interest Differential(2)			4.23%		4.19%

(1) Net interest spread is the difference between the yield on earning assets and the rate paid on interest-bearing liabilities.

(2) Interest differential is tax equivalent net interest income divided by average earning assets.

An increase of $12.6 million is noted in the average volume of earning assets for the first six months of 2006 compared to the same period of 2005, with an increase of 57 basis points in the average yield. Interest earned on the loan portfolio accounts for approximately 85.8% of total interest income for 2006 and 82.5% for 2005. This increase is a result of an increase in short-term rates as well as an increase in loan volume throughout the 2005 and 2006 comparison periods.

In comparison, the average volume of interest bearing liabilities for the first six months of 2006 increased approximately $12.9 million over the 2005 comparison period, and the rate paid on these accounts increased 62 basis points. Year-to-date, the increase in the average rate paid on interest-bearing liabilities has exceeded the average yield earned on interest-earning assets, putting pressure on the Company's net interest spread, which declined from 3.87% for the first six months of 2005 to 3.82% for the first six months of 2006. Interest paid on time deposits comprises 59.4% and 56.0%, respectively, of total interest expense for the 2006 and 2005 comparison periods.

As time deposits mature, a majority of them are being placed in Certificate of Deposit (CD) specials at higher competitive rates for shorter terms. Some of the increase in CD balances has been due to the customers shifting money from non-maturing products into CD's. The shift of CD's into shorter term, higher-cost specials is driving funding costs up and making the Company's balance sheet more liability sensitive. The increase in short-term rates continues to pose a challenge to the Company to manage the cost of funds. Growth in loans continues to outpace growth in deposits, requiring an increase in short-term borrowings, a more costly funding source than deposits. The yield curve remains flat (short-term rates are relatively close to long-term rates) minimizing spread income.

CHANGES IN INTEREST INCOME AND INTEREST EXPENSE

The following table summarizes the variances in interest income and interest expense on a fully tax-equivalent basis for the first six months of 2006 and 2005 resulting from volume changes in average assets and average liabilities and fluctuations in rates earned and paid.

RATE / VOLUME	Variance Due to Rate(1)	Variance Due to Volume(1)	Total Variance
Loans(2)	$ 446,849	$ 966,476	$ 1,413,325
Taxable Investment Securities	55,016	(254,545)	(199,529)

Tax Exempt Investment Securities	149,498	(116,092)	33,406
Federal Funds Sold	3,834	4,009	7,843
Sweep Account	7,248	6,069	13,317
Other Securities	16,860	9,612	26,472
Total Interest Earnings	$ 679,305	$ 615,529	$ 1,294,834
Savings Deposits	$ (62)	$ (2,241)	$ (2,303)
NOW & Money Market Funds	195,551	(28,677)	166,874
Time Deposits	455,543	204,069	659,612
Other Borrowed Funds	87,011	(23,175)	63,836
Notes Payable	(1,311)	0	(1,311)
Repurchase Agreements	54,587	24,304	78,891
Total Interest Expense	$ 791,319	$ 174,280	$ 965,599
Change in Net Interest Income	$ (112,014)	$ 441,249	$ 329,235

(1) Items which have shown a year-to-year increase in volume have variances allocated as follows:

Variance due to rate = Change in rate x new volume

Variance due to volume = Change in volume x old rate

Items which have shown a year-to-year decrease in volume have variances allocated as follows:

Variance due to rate = Change in rate x old volume

Variances due to volume = Change in volume x new rate

(2) Loans are stated before deduction of unearned discount and allowance for loan losses. The principal balances of non-accrual loans is included in calculations of the yield on loans, while the interest on these non-performing assets is excluded.

NON INTEREST INCOME AND NON INTEREST EXPENSE

The increase in non-interest income for the second quarter of 2006 compared to the second quarter of 2005, and the first six months of 2006 compared to the same period in 2005 was attributable primarily to an increase in service fees charged on our deposit products, as well as an increase in income generated through the Company's affiliate, Community Financial Services Group (CFSG). Through the Company's investment in CFSG, income of $20,322 for the second quarter of 2006, and $43,785 for the first six months of 2006 was reported versus income of $12,073 for the second quarter of 2005, and $23,953 for the first six months of 2005.

The increase in non-interest expense in both the second quarter comparison periods and the six month comparison periods is attributable in part to an increase in depreciation expense, a component of occupancy expenses, associated with the newly finished addition and renovations to the Company's main office. These increases amounted to $59,428 for the second quarter of 2006 compared to 2005, and $117,419 for the six months of 2006 compared to 2005. Other expense in total increased $59,960 for the second quarter of 2006 compared to the same period 2005, and for the first six months of 2006 versus 2005, an increase of $125,817 is noted. The major components include audit, consulting fees, and state deposit tax. As mentioned in the first quarter report, increased regulations and current legislative issues concerning banks and public companies have caused the Company to seek legal advice more frequently than in the past. Compliance with the Sarbanes Oxley Act continues to impact both legal and audit fees as the Company prepares to meet the requirements of Section 404 of the Sarbanes Oxley Act.

Management monitors all components of other non-interest expenses; however, a quarterly review is performed to assure that the accruals for these expenses are accurate. This helps alleviate the need to make significant adjustments to these accounts that in turn affect the net income of the Company.

APPLICABLE INCOME TAXES

Provisions for income taxes increased $38,230 for the second quarter of 2006 compared to the second quarter of 2005, while a decrease of $3,755 was reported for the first six months of 2006 compared to the first six months of 2005. While the second quarter increase is consistent with the increase in income, the decrease for the first six months is due to an increase in various deferred tax items, including depreciation, and an increase in municipal interest that is not taxable for tax purposes.

CHANGES IN FINANCIAL CONDITION

The following table reflects the composition of the Company's major categories of assets and liabilities as a percent of total assets as of the dates indicated:

ASSETS	June 30, 2006		December 31, 2005		June 30, 2005	
Loans (gross)	$ 264,739,357	78.79%	$ 252,209,537	71.28%	$ 234,732,726	73.25%
Available for Sale Securities	31,240,498	9.30%	36,454,426	10.30%	42,829,839	13.37%
Held to Maturity Securities	13,574,007	4.04%	28,391,665	8.02%	18,325,736	5.72%
LIABILITIES						
Savings Deposits	$ 45,327,841	13.49%	$ 45,281,605	12.80%	$ 47,233,747	14.74%
NOW & Money Market Funds	56,375,837	16.78%	100,078,793	28.28%	68,872,277	21.49%
Time Deposits	121,050,841	36.03%	103,103,041	29.14%	98,636,544	30.78%

The Company's loan portfolio increased during the first six months of 2006, due in part to new loans of substantial size within the commercial portfolio, as well as an increase in the residential portfolio. Because loan growth outpaced deposit growth, funding for these new loans was accomplished in part through maturities in the Company's available-for-sale investment portfolio, accounting for the decrease in these assets from June 30, 2005 to June 30, 2006. Competitive Certificate of Deposit specials were offered throughout 2005 and into the first six months of 2006. Competitive rates and $8.74 million dollars placed in the Certificate of Deposit Account Registry Service (CDARS) of Promontory Interfinancial Network account for the increase in this deposit category throughout the comparison periods. The CDARS network has helped to add another source of funding, along with short-term borrowings and maturities in the available-for-sale securities portfolio. The Company has also noticed a shift from deposit accounts with lower yields into various higher yielding CD products.

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RISK MANAGEMENT

Interest Rate Risk and Asset and Liability Management - Management actively monitors and manages its interest rate risk exposure and attempts to structure the balance sheet to maximize net interest income while controlling its exposure to interest rate risk. The Company's Asset/Liability Management Committee (ALCO) formulates strategies to manage interest rate risk by evaluating the impact on earnings and capital of such factors as current interest rate forecasts and economic indicators, potential changes in such forecasts and indicators, liquidity, and various business strategies. The ALCO meets monthly to review financial statements, liquidity levels, yields and spreads to better understand, measure, monitor and control the Company's interest rate risk. In the ALCO process, the committee members apply policy limits set forth in the Asset Liability, Liquidity and Investment policies approved by the Company's Board of Directors. The ALCO's methods for evaluating interest rate risk include an analysis of the effects of interest rate changes on net interest income and an analysis of the Company's interest rate sensitivity "gap", which provides a static analysis of the maturity and repricing characteristics of the entire balance sheet.

Interest rate risk represents the sensitivity of earnings to changes in market interest rates. As interest rates change, the interest income and expense streams associated with the Company's interest sensitive assets and liabilities also change, thereby impacting net interest income (NII), the primary component of the Company's earnings. Fluctuations in interest rates can also have an impact on liquidity. The ALCO uses an outside consultant to perform quarterly rate shock simulations to the Company's net interest income, as well as a variety of other analyses. It is the ALCO's function to provide the assumptions used in the modeling process. The ALCO utilizes the results of this simulation model to quantify the estimated exposure of NII and liquidity to sustained interest rate changes. The simulation model captures the impact of changing interest rates on the interest income received and interest expense paid on all interest-earning assets and interest-bearing liabilities reflected on the Company's balance sheet. Furthermore, the model simulates the balance sheet's sensitivity to a prolonged flat rate environment. All rate scenarios are simulated assuming a parallel shift of the yield curve; however further simulations are performed utilizing a flattening yield curve as well. This sensitivity analysis is compared to the ALCO policy limits which specify a maximum tolerance level for NII exposure over a 1-year horizon, assuming no balance sheet growth, given a 200 basis point (bp) shift upward and a 100 bp shift downward in interest rates. The analysis also provides a summary of the Company's liquidity position. Furthermore, the analysis provides testing of the assumptions used in previous simulation models by comparing the projected NII with actual NII. The asset/liability simulation model provides management with an important tool for making sound economic decisions regarding the balance sheet.

While assumptions are developed based upon current economic and local market conditions, the Company cannot provide any assurances as to the predictive nature of these assumptions, including how or when customer preferences or competitor influences might change.

Credit Risk - A primary concern of management is to reduce the exposure to credit loss within the loan portfolio. Management follows established underwriting guidelines, and any exceptions to the policy must be approved by a loan officer with higher authority than the loan officer originating the loan. The adequacy of the loan loss coverage is reviewed quarterly by the risk management committee of the Board of Directors. This committee meets to discuss, among other matters, potential exposures, historical loss experience, and overall economic conditions. Existing or potential problems are noted and addressed by senior management in order to assess the risk of probable loss or delinquency. A variety of loans are reviewed periodically by an independent firm in order to assure accuracy of the Company's internal risk ratings and compliance with various internal policies and procedures, as well as those set by the regulatory authorities. The Company also employs a Credit Administration Officer whose duties include monitoring and reporting on the status of the loan portfolio including delinquent and non-performing loans.

The expansion into Central Vermont with the opening of a full service branch in May, 2001, has given the Company an opportunity to diversify the geographic risk in the loan portfolio with loans from a stronger economic community. When the Company entered into the Central Vermont market, experienced lenders were hired and trained to be sure that the same high level of standards would be followed for the loans originated in this new market; all credit administration and underwriting is centralized to ensure consistency.

The following table reflects the composition of the Company's loan portfolio as of the dates indicated:

	June 30, 2006		December 31, 2005	
	Total Loans	% of Total	Total Loans	% of Total
Real Estate Loans				
Construction & Land Development	$ 15,264,148	5.77%	$ 13,931,238	5.52%
Farm Land	3,062,197	1.16%	2,870,364	1.14%
1-4 Family Residential	138,898,464	52.47%	133,612,177	52.98%
Home Equity Lines	11,572,816	4.37%	11,165,413	4.43%
Commercial Real Estate	51,803,413	19.57%	48,504,553	19.23%
Loans to Finance Agricultural Production	250,875	0.09%	213,692	0.08%
Commercial & Industrial	22,452,781	8.48%	20,049,163	7.95%
Consumer Loans	21,154,556	7.99%	21,295,619	8.44%
All Other Loans	280,107	0.10%	567,318	0.23%
Gross Loans	264,739,357	100%	252,209,537	100%
Less:				
Allowance for Loan Losses	(2,238,870)	-0.85%	(2,189,187)	-0.87%
Deferred Loan Fees	(677,077)	-0.26%	(684,106)	-0.27%
Net Loans	$ 261,823,410	98.89%	$ 249,336,244	98.86%

Allowance for loan losses and provisions

- The Company continues to maintain an allowance for loan losses at a level that management believes is adequate to absorb losses inherent in the loan portfolio. As of June 30, 2006, the Company maintained a residential loan portfolio (including home equity lines of credit) of $150.5 million, compared to $144.8 million at December 31, 2005, accounting for 56.8% and 57.4%, respectively, of the total loan portfolio. The commercial real estate portfolio (including construction, land development and farmland loans) totaled $70.1 million and $65.3 million, respectively, for June 30, 2006 and December 31, 2005, comprising 26.5% and 25.9%, respectively, of the total loan portfolio. The Company's commercial loan portfolio includes loans that carry guarantees from government programs, thereby mitigating the Company's credit risk on such loans. Aat June 30, 2006, the Company had $19.3 million in guaranteed loans, compared to $18.7 million at December 31, 2005. The volume of residential and commercial loans secured by real estate, together with the low historical loan loss experience in these portfolios, helps to support the Company's basis for loan loss coverage. In establishing the ALL, management uses qualitative factors to simulate current lending conditions. The lenders and credit administration staffs are highly skilled and dedicated to the high standards and expectations of the Company.

The following table summarizes the Company's loan loss experience for the six months ended June 30,

	2006	2005
Loans Outstanding End of Period	$ 264,739,357	$ 234,732,726
Average Loans Outstanding During Period	$ 260,932,362	$ 230,948,196
Loan Loss Reserve, Beginning of Period	$ 2,189,187	$ 2,153,372
Loans Charged Off:		
Residential Real Estate	5,490	4,602
Commercial Real Estate	0	0
Commercial Loans not Secured by Real Estate	13,266	27,500
Consumer Loans	39,020	59,580
Total Loans Charged Off	57,776	91,682
Recoveries:		
Residential Real Estate	924	910
Commercial Real Estate	0	0
Commercial Loans not Secured by Real Estate	2,496	4,330
Consumer Loans	29,039	28,433
Total Recoveries	32,459	33,673
Net Loans Charged Off	25,317	58,009
Provision Charged to Income	75,000	75,000
Loan Loss Reserve, End of Period	$ 2,238,870	$ 2,170,363

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Non-performing assets for the comparison periods were as follows:

	June 30, 2006		December 31, 2005	
	Balance	Percent of Total	Balance	Percent of Total
Non-Accruing loans	$ 943,266	70.23%	$ 436,419	71.16%
Loans past due 90 days or more and still accruing	399,814	29.77%	176,885	28.84%
Total	$ 1,343,080	100.00%	$ 613,304	100.00%

Other Real Estate Owned consists of property that the Company has acquired by deed in lieu of foreclosure or through normal foreclosure proceedings, and property that the Company does not hold title to but is in actual control of, known as in-substance foreclosure. The estimated fair value of the property is determined prior to transferring the balance to Other Real Estate Owned. The balance transferred to OREO is the lesser of the estimated fair market value of the property, or the book value of the loan, less estimated cost to sell. Appraisals or loan officer evaluations are then done periodically in accordance with the OREO Policy and if deemed necessary, a write-down may be made to bring the book value of the loan equal to the appraised value, charging such subsequent write-down to the appropriate expense account.

A recent federal bankruptcy court decision held that, under Vermont strict foreclosure law as then in effect, when there is any significant equity value in excess of the debt owed to the foreclosing party, the forfeiture of the value through strict foreclosure may result in a challenge to the transfer in the event of a bankruptcy filing by the borrower who lost the property through foreclosure. Because this decision created the possibility that a strict foreclosure might be subject to challenge as a fraudulent transfer whenever the value of the property exceeds the debt, in a foreclosure situation where equity is available, we request an order for public sale rather than taking property into OREO directly through strict foreclosure or otherwise. Effective May 6, 2006, revisions were adopted to Vermont's strict foreclosure statute which permit either party to a strict foreclosure proceeding to request that the property instead be disposed of through a judicial sale. This change in the law provides a mechanism for the mortgagor to protect his equity in the property by requiring a judicial sale even when the mortgage deed does not provide for foreclosure by power of sale.

As of June 30, 2006 and December 31, 2005, the Company had no OREO properties in its portfolio.

Specific allocations are made in the allowance for loan losses in situations management believes may represent a greater risk for loss. In addition, a portion of the allowance (termed "unallocated") is established to absorb inherent losses that probably exist as of the valuation date although not identified through management's objective processes for estimated credit losses. A quarterly review of various qualitative factors, including levels of, and trends in, delinquencies and non-accruals and national and local economic trends and conditions, helps to ensure that areas with potential risk are noted and coverage increased or decreased to reflect the trends in delinquencies and non-accruals. Residential mortgage loans make up the largest part of the loan portfolio and have the lowest historical loss ratio, helping to alleviate the overall risk. While the allowance is described as consisting of separate allocated portions, the entire allowance is available to support loan losses, regardless of category.

Market Risk - In addition to credit risk in the Company's loan portfolio and liquidity risk, the Company's business activities also generate market risk. Market risk is the risk of loss in a financial instrument arising from adverse changes in market prices and rates, foreign currency exchange rates, commodity prices and equity prices. The Company does not have any market risk sensitive instruments acquired for trading purposes. The Company's market risk arises primarily from interest rate risk inherent in its lending, investing, and deposit taking activities. Interest rate risk is directly related to the different maturities and repricing characteristics of interest-bearing assets and liabilities, as well as to loan prepayment risks, early withdrawal of time deposits, and the fact that the speed and magnitude of responses to interest rate changes vary by product. As discussed above under "Interest Rate Risk and Asset and Liability Management", the Company actively monitors and manages its interest rate risk through the ALCO process.

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FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

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 and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby letters of credit and risk-sharing commitments on certain sold loans. Such instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments. During the first six months of 2006, there has not been any activity that has created any additional types of off-balance-sheet risk.

The Company generally requires collateral or other security to support financial instruments with credit risk. The Company's financial instruments whose contract amount represents credit risk as of June 30, 2006 are as follows:

	Contract or Notional Amount
Unused portions commercial lines of credit	$ 9,431,395
Unused portions of home equity lines of credit	11,166,950
Other commitments to extend credit	16,519,790
Unused portions of credit card lines	9,506,849
Standby letters of credit and commercial letters of credit	987,200
MPF credit enhancement obligation, net of liability recorded	1,059,418

Since some commitments expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

AGGREGATE CONTRACTUAL OBLIGATIONS

The following table presents, as of June 30, 2006, significant fixed and determinable contractual obligations to third parties, by payment date:

	Less than 1 year	2-3 years	4-5 years	More than 5 years	Total
Operating Leases	$ 166,919	$ 337,747	$ 340,808	$ 935,103	$ 1,780,577
Housing Limited Partnerships	298,538	236,094	0	0	534,632
FHLB Borrowings	12,523,000	30,000	0	5,010,000	17,563,000
Total	$ 12,988,457	$ 603,841	$ 340,808	$ 5,945,103	$ 19,878,209

LIQUIDITY AND CAPITAL RESOURCES

Managing liquidity risk is essential to maintaining both depositor confidence and stability in earnings. Liquidity management refers to the ability of the Company to adequately cover fluctuations in assets and liabilities. Meeting loan demand (assets) and covering the withdrawal of deposit funds (liabilities) are two key components of the liquidity management process. The Company's principal sources of funds are deposits, amortization and prepayment of loans and securities, maturities of investment securities, sales of loans available for sale, and earnings and funds provided from operations, supplemented by borrowed funds. Maintaining a relatively stable funding base, which is achieved by diversifying funding sources, competitively pricing deposit products, and extending the contractual maturity of liabilities, reduces the Company's exposure to roll over risk on deposits and limits reliance on volatile short-term borrowed funds. Short-term funding needs arise from declines in deposits or other funding sources and funding of loan commitments. When loan demand out paces deposit growth, it is necessary for the Company to use alternative funding sources, such as investment portfolio maturities and short-term borrowings, to meet these funding needs.

The Company's investment portfolio has decreased $20.0 million, with maturities of $4.8 million in its available-for-sale portfolio, and $14.8 million of municipal debt instruments in its held-to-maturity portfolio, while the loan portfolio increased $12.5 million during the first six months of 2006. Of the $14.8 million in the held-to-maturity portfolio that matured, all but approximately $4.0 million renewed in July 2006, with new municipal loans totaling $10.0 million scheduled to close within the first few weeks of the third quarter. On the liability side, NOW and money market accounts decreased $43.7 million, while time deposits increased $17.9 million. Federal funds purchased and other borrowed funds increased $7.5 million in order to fund a portion of the increase in the loan portfolio. The decreases in the held-to-maturity investment portfolio and the NOW and money market accounts are attributable primarily to seasonal fluctuations in municipal accounts which mature at the end of June and typically renew during the month of July each year.

As a member of the Federal Home Loan Bank of Boston (FHLBB), the Company has access to pre-approved lines of credit. The Company has a $4.3 million unsecured Federal Funds line with an available balance of the same at June 30, 2006. Interest is chargeable at a rate determined daily approximately 25 basis points higher than the rate paid on federal funds sold. Additional borrowing capacity of approximately $85.6 million through the FHLBB is secured by the Company's qualifying loan portfolio.

As of June 30, 2006, the Company had total advances of $17.6 million against the $85.6 million. The $5.0 million long-term advance had a quarterly call option that was excercised on July 17, 2006 due to rising rates. This provided the Company the opportunity to replace this long-term borrowing with a short-term advance. As of June 20, 2006, the Company's outstanding advances consisted of the following:

Purchase Date	Annual Rate	Maturity Date	Principal Balance
April 12, 2006	5.17%	September 12, 2006	$ 5,000,000
June 27, 2006	5.29%	July 26, 2006	5,000,000
November 16, 1992	7.57%	November 16, 2007	30,000
November 16, 1992	7.67%	November 16, 2012	10,000
January 16, 2001	4.78%	January 18, 2011	5,000,000
Total Long-term Advances			$ 15,040,000
Federal Funds Purchased			$ 2,523,000

Under a separate agreement with FHLBB, the Company has the authority to collateralize public unit deposits, up to its FHLBB borrowing capacity ($85.6 million less outstanding advances noted above) with letters of credit issued by the FHLBB. At June 30, 2006, approximately $50.7 million was pledged, under this agreement, as collateral for these deposits. Interest is charged to the Company quarterly based on the average daily balance for the quarter at an annual rate of 20 basis points. The average daily balance for the second quarter of 2006 was approximately $12.7 million.

Other alternative sources of funding come from unsecured Federal Funds lines with two other correspondent banks that total $7.5 million. There were no balances outstanding on either line at June 30, 2006. As a member of CDARS, the Company is able to purchase deposits from other members as another source of funding. At June 30, 2006, the Company had $5 million in purchased deposits through CDARS.

In December 2005, the Company declared a cash dividend of $0.17 per share, payable in the first quarter of 2006, requiring an accrual of $691,964 during the fourth quarter of 2005. In March 2006, the Company declared a cash dividend of $0.17 per share, payable in the second quarter of 2006, requiring an accrual of $692,054 at March 31, 2006. In June 2006, the Company declared a cash dividend of $0.17 per share, payable in the third quarter of 2006, requiring an accrual of $694,391 at June 30, 2006.

The following table illustrates the changes in shareholders' equity from December 31, 2005 to June 30, 2006:

Balance at December 31, 2005 (book value $7.15 per share)	$ 29,123,334
Net income	1,498,042
Issuance of stock through the Dividend Reinvestment Plan	429,644
Purchase of treasury stock (fractional share redemption)	(11)
Total dividends declared	(1,384,237)
Unrealized holding losses arising during the period on available-for-sale securities, net of tax	(104,361)
Balance at June 30, 2006 (book value $7.21 per share)	$ 29,562,411

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At June 30, 2006, the Company reported that of the 405,000 shares authorized for the stock buyback plan, 178,890 shares have been purchased, leaving 226,110 shares available for repurchase. The repurchase price paid for these shares ranged from $9.75 per share in May of 2000 to $16.50 per share paid in September of 2005. During the first six months of 2006, the Company did not repurchase any shares pursuant to the buyback authority. The last purchase was December 23, 2005 in which 4,938 shares were repurchased at a price of $16.00 per share. For additional information on stock repurchases by the Company and affiliated purchasers (as defined in SEC Rule 10b-18) refer to Part II, Item 2 of this Report.

The primary source of funds for the Company's payment of dividends to its shareholders is dividends paid to the Company by the Bank. The Bank, as a national bank, is subject to the dividend restrictions set forth in the National Bank Act, implemented by the OCC. Under such restrictions, the Bank may not, without the prior approval of the OCC, declare dividends in excess of the sum of the current year's earnings (as defined) plus the retained earnings (as defined) from the prior two years.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Under current guidelines, banks must maintain a risk-based capital ratio of 8.0%, of which at least 4.0% must be in the form of core capital (as defined). The risk-based ratios of the Company and its Subsidiary exceeded regulatory guidelines at June 30, 2006 with reported risk-weighted assets of $227.3 million compared to $216.8 million at December 31, 2005 and total capital of $32.4 million and $31.8 million, respectively. The Company's total risk-based capital to risk-weighted assets was 14.24% and 14.65% at June 30, 2006 and December 31, 2005, respectively. The Company's Tier 1 capital to risk-weighted assets was 13.25% and 13.64% at June 30, 2006 and December 31, 2005, respectively. In addition to risk-based capital requirements, bank holding companies are required to maintain minimum leverage capital ratios of core capital to average assets of $4.0%. The Company exceeded these requirements with leverage ratios of 8.52% as of June 30, 2006, and 8.37% at December 31, 2005.

Regulators have also established guidelines for minimum capital ratio requirements that define a bank as well-capitalized under prompt corrective action provisions. These minimums are risk-based capital ratio of 10.0% and Tier 1 capital ratio of 6.0%. As of June 30, 2006, the Company and its Subsidiary were deemed well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that time that management believes have changed the Company's classification.

The Company intends to continue the past policy of maintaining a strong capital resource position to support its asset size and level of operations. Consistent with that policy, management will continue to anticipate the Company's future capital needs.

From time to time the Company may make contributions to the capital of Community National Bank. At present, regulatory authorities have made no demand on the Company to make additional capital contributions.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

The Company's management of the credit, liquidity and market risk inherent in its business operations is discussed in Part 1, Item 2 of this report under the caption "RISK MANAGEMENT", as well as in the Company's 2005 annual report on form 10-K. Management does not believe that there have been any material changes in the nature or categories of the Company's risk exposures from those disclosed in such 10-K report.

ITEM 4. Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Company has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. This evaluation was carried out under the supervision and with the participation of the Company's management, including the Company's Chairman and Chief Executive Officer and its President and Chief Operating Officer (Chief Financial Officer). Based upon that evaluation, such officers concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report. For this purpose, the term "disclosure controls and procedures" means controls and other procedures of the Company that are designed to ensure that information required to be disclosed by it in the reports that it files or submits under the Exchange Act (15 U.S.C. 78a *et seq.*) is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

There were no changes during the Company's last fiscal quarter in the Company's internal control over financial reporting identified in connection with the evaluation of the Company's disclosure controls and procedures 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

The Company and/or its Subsidiary are subject to various claims and legal actions that have arisen in the normal course of business. Management does not expect that the ultimate disposition of these matters, individually or in the aggregate, will have a material adverse impact on the Company's financial statements.

ITEM 1A. Risk Factors

There has been no material change in the Company's risk factors described in its Annual Report on Form 10-K, as amended on Form 10-K/A, for the year ended December 31, 2005.

ITEM 2. Unregistered Sales of Securities and Use of Proceeds

The following table provides information as to purchases of the Company's common stock during the second quarter ended June 30, 2006, by the Company and by any affiliated purchaser (as defined in SEC Rule 10b-18):

For the period:	Total Number of Shares Purchased(1)(2)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan(3)	Maximum Number of Shares That May Yet Be Purchased Under the Plan at the End of the Period
April 1 - April 30	0	$0	0	226,110
May 1 - May 31	950	$15.25	0	226,110
June 1 - June 30	1,269	$13.50	0	226,110
Total	2,219	$14.25	0	226,110

(1) All 2,219 shares were purchased for the account of participants invested in the Company Stock Fund under the Company's Retirement Savings Plan by or on behalf of the Plan Trustee, the Human Resources Committee of Community National Bank. Such share purchases were facilitated through Community Financial Services Group, LLC ("CFSG"), which provides certain investment advisory services to the Plan. Both the Plan Trustee and CFSG may be considered affiliates of the Company under Rule 10b-18. All purchases by the Plan were made in the open market in

brokerage transactions and reported on the OTC Bulletin Board©.

(2) Shares purchased during the period do not include fractional shares repurchased from time to time in connection with the participant's election to discontinue participation in the Company's Dividend Reinvestment Plan.

(3) The Company's Board of Directors in April, 2000 initially authorized the repurchase from time to time of up to 205,000 shares of the Company's common stock in open market and privately negotiated transactions, in management's discretion and as market conditions may warrant. The Board extended this authorization on October 15, 2002 to repurchase an additional 200,000 shares, with an aggregate limit for such repurchases under both authorizations of $3.5 million. The approval did not specify a termination date.

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

The following matters were submitted to a vote of security holders, at the Annual Meeting of Shareholders of Community Bancorp. on May 2, 2006:

To elect four directors to serve until the Annual Meeting of Shareholders in 2008; and one director to serve until the Annual Meeting of Shareholders in 2009;

To ratify the selection of the independent registered public accounting firm of Berry, Dunn, McNeil & Parker as the Corporation's external auditors for the fiscal year ending December 31, 2006;

The results are as follows:

MATTER	FOR	AGAINST	AUTHORITY WITHHELD/ ABSTAIN	BROKER NON-VOTE
Election of Directors:				
Aminta K. Conant	2,352,942.6942	118.0000	24,888.8517	-0-
Elwood G. Duckless	2,353,060.6942	0.0000	24,888.8517	-0-
Rosemary M. Lalime	2,307,593.9026	45,466.7916	24,888.8517	-0-
Anne T. Moore	2,340,458.1172	12,602.5770	24,888.8517	-0-
Dorothy R. Mitchell	2,327,048.3499	26,012.3443	24,888.8517	-0-
Selection of Auditors				
Berry, Dunn, McNeil & Parker	2,350,428.5326	0.0000	27,521.0133	-0-

ITEM 6. Exhibits

Exhibit 31.1 - Certification from the Chief Executive Officer of the Company pursuant to section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2 - Certification from the Chief Financial Officer of the Company pursuant to section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1 - Certification from the Chief Executive Officer of the Company pursuant to 18 U.S.C., Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002*
Exhibit 32.2 - Certification from the Chief Financial Officer of the Company pursuant to 18 U.S.C., Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002*

*This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Act of 1934.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COMMUNITY BANCORP.

By: /s/ Richard C. White

DATED: August 9, 2006

Richard C. White, Chairman &
Chief Executive Officer

DATED: August 9, 2006

By: /s/ Stephen P. Marsh
Stephen P. Marsh, President &
Chief Operating Officer
(Chief Financial Officer)