

INDEPENDENT BANK CORP

Form 10-Q

November 07, 2006

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**SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2006
Commission File Number: 1-9047
Independent Bank Corp.
(Exact name of registrant as specified in its charter)**

Massachusetts
(State or other jurisdiction of
incorporation or organization)

04-2870273
(I.R.S. Employer
Identification No.)

288 Union Street, Rockland, Massachusetts 02370
(Address of principal executive offices, including zip code)
(781) 878-6100
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes 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) (check one).

Large Accelerated Filer Accelerated Filer Non-accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of November 1, 2006, there were 14,682,918 shares of the issuer's common stock outstanding, par value \$0.01 per share.

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Signatures

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Ex-31.1 Section 302 Certification of CEO

Ex-31.2 Section 302 Certification of CFO

Ex-32-1 Section 906 Certification of CEO

Ex-32-2 Section 906 Certification of CFO

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INDEPENDENT BANK CORP.
CONSOLIDATED BALANCE SHEETS
(Unaudited- Dollars in Thousands, Except Share and Per Share Amounts)

	September 30, 2006	December 31, 2005
ASSETS		
CASH AND DUE FROM BANKS	\$ 64,403	\$ 66,289
FEDERAL FUNDS SOLD AND SHORT TERM INVESTMENTS	48,500	63,662
SECURITIES		
TRADING ASSETS	1,588	1,557
SECURITIES AVAILABLE FOR SALE	494,422	581,516
SECURITIES HELD TO MATURITY (fair value \$99,596 and \$106,730)	98,236	104,268
FEDERAL HOME LOAN BANK STOCK	22,634	29,287
TOTAL SECURITIES	616,880	716,628
LOANS		
COMMERCIAL AND INDUSTRIAL	170,389	155,081
COMMERCIAL REAL ESTATE	730,213	683,240
COMMERCIAL CONSTRUCTION	128,469	140,643
BUSINESS BANKING	57,522	51,373
RESIDENTIAL REAL ESTATE	396,564	428,343
RESIDENTIAL CONSTRUCTION	9,122	8,316
RESIDENTIAL LOANS HELD FOR SALE	10,954	5,021
CONSUMER HOME EQUITY	278,879	251,852
CONSUMER AUTO	217,629	263,179
CONSUMER OTHER	51,554	53,760
TOTAL LOANS	2,051,295	2,040,808
LESS: ALLOWANCE FOR LOAN LOSSES	(26,814)	(26,639)
NET LOANS	2,024,481	2,014,169
BANK PREMISES AND EQUIPMENT, NET	37,110	37,431
GOODWILL	55,078	55,078
CORE DEPOSIT INTANGIBLES	1,538	1,780
MORTGAGE SERVICING RIGHTS	2,571	2,892
BANK OWNED LIFE INSURANCE	45,180	44,762
OTHER REAL ESTATE OWNED	190	
OTHER ASSETS	38,397	38,994
TOTAL ASSETS	\$ 2,934,328	\$ 3,041,685

LIABILITIES AND STOCKHOLDERS EQUITY			
DEPOSITS			
DEMAND DEPOSITS		\$ 509,518	\$ 511,920
SAVINGS AND INTEREST CHECKING ACCOUNTS		571,227	613,840
MONEY MARKET		508,865	550,677
TIME CERTIFICATES OF DEPOSIT OVER \$100,000		198,226	167,242
OTHER TIME CERTIFICATES OF DEPOSIT		392,774	361,815
TOTAL DEPOSITS		2,180,610	2,205,494
FEDERAL HOME LOAN BANK BORROWINGS			
FEDERAL FUNDS PURCHASED AND ASSETS SOLD UNDER REPURCHASE AGREEMENTS		340,389	417,477
JUNIOR SUBORDINATED DEBENTURES		116,242	113,335
TREASURY TAX AND LOAN NOTES		51,546	51,546
		1,606	5,452
TOTAL BORROWINGS		509,783	587,810
OTHER LIABILITIES		21,591	20,229
TOTAL LIABILITIES		\$ 2,711,984	\$ 2,813,533
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDERS EQUITY			
PREFERRED STOCK, \$0.01 par value. Authorized: 1,000,000 Shares Outstanding: None		\$	\$
COMMON STOCK, \$0.01 par value. Authorized: 30,000,000 Issued and Outstanding: 14,674,258 Shares at September 30, 2006 and 15,402,391 Shares at December 31, 2005		147	154
SHARES HELD IN RABBI TRUST AT COST 168,540 Shares at September 30, 2006 and 170,488 Shares at December 31, 2005		(1,712)	(1,577)
DEFERRED COMPENSATION OBLIGATION		1,712	1,577
ADDITIONAL PAID IN CAPITAL		60,045	59,700
RETAINED EARNINGS		169,153	175,284
ACCUMULATED OTHER COMPREHENSIVE LOSS, NET OF TAX		(7,001)	(6,986)
TOTAL STOCKHOLDERS EQUITY		222,344	228,152
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY		\$ 2,934,328	\$ 3,041,685

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

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INDEPENDENT BANK CORP.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited Dollars in Thousands, Except Share and Per Share Data)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	September 30,		September 30,	
	2006	2005	2006	2005
INTEREST INCOME				
Interest on Loans	\$ 34,732	\$ 30,994	\$ 101,517	\$ 88,891
Taxable Interest and Dividends on Securities	6,896	7,492	20,535	23,792
Non-taxable Interest and Dividends on Securities	604	668	1,936	2,007
Interest on Federal Funds Sold and Short-Term Investments	577	71	729	137
Total Interest Income	42,809	39,225	124,717	114,827
INTEREST EXPENSE				
Interest on Deposits	11,229	6,616	29,093	17,949
Interest on Borrowings	5,751	5,890	17,680	17,946
Total Interest Expense	16,980	12,506	46,773	35,895
Net Interest Income	25,829	26,719	77,944	78,932
PROVISION FOR LOAN LOSSES	530	1,070	1,630	3,105
Net Interest Income After Provision For Loan Losses	25,299	25,649	76,314	75,827
NON-INTEREST INCOME				
Service Charges on Deposit Accounts	3,669	3,462	10,652	9,611
Investment Management Services				
Income	1,438	1,348	4,497	3,999
Mortgage Banking Income	526	1,068	1,994	2,580
BOLI Income	479	462	2,729	1,360
Net Gain/(Loss) on Sales of Securities			(1,769)	616
Other Non-Interest Income	937	797	2,588	2,330
Total Non-Interest Income	7,049	7,137	20,691	20,496
NON-INTEREST EXPENSE				
Salaries and Employee Benefits	12,088	11,804	36,024	35,758
Occupancy and Equipment Expenses	2,378	2,273	7,618	7,465
Data Processing and Facilities				
Management	1,166	1,070	3,262	3,023
Other Non-Interest Expense	4,341	5,095	14,187	14,186

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Total Non-Interest Expense	19,973	20,242	61,091	60,432
INCOME BEFORE INCOME TAXES	12,375	12,544	35,914	35,891
PROVISION FOR INCOME TAXES	3,819	3,857	11,165	11,249
NET INCOME	\$ 8,556	\$ 8,687	\$ 24,749	\$ 24,642
BASIC EARNINGS PER SHARE	\$ 0.58	\$ 0.56	\$ 1.65	\$ 1.60
DILUTED EARNINGS PER SHARE	\$ 0.58	\$ 0.56	\$ 1.63	\$ 1.59
Weighted average common shares (Basic)	14,696,065	15,391,937	15,014,292	15,370,226
Common share equivalents	178,433	145,684	165,725	147,813
Weighted average common shares (Diluted)	14,874,498	15,537,621	15,180,017	15,518,039

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

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INDEPENDENT BANK CORP.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited Dollars in Thousands, Except Share & Per Share Data)

	COMMON SHARES OUTSTANDING	COMMON STOCK	DEFERRED RABBI TRUST OBLIGATION	COMPENSATION	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)	TOTAL
BALANCE DECEMBER 31, 2004	15,326,236	\$ 153	(\$1,428)	\$ 1,428	\$ 59,415	\$ 150,241	\$ 934	\$ 210,743
Net Income						33,205		33,205
Cash Dividends Declared (\$0.60 per share)						(9,233)		(9,233)
Proceeds From Exercise of Stock Options	76,155	1				1,071		1,072
Tax Benefit on Stock Option Exercise					282			282
Stock-Based Compensation					3			3
Change in Fair Value of Derivatives During Period, Net of Tax, and Realized Gains							870	870
Deferred Compensation Obligation			(149)	149				
Change in Unrealized Gain on Securities Available For Sale, Net of Tax and Realized Gains							(8,790)	(8,790)
BALANCE DECEMBER 31, 2005	15,402,391	\$ 154	(\$1,577)	\$ 1,577	\$ 59,700	\$ 175,284	(\$6,986)	\$ 228,152
Net Income						24,749		24,749
						(7,163)		(7,163)

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Cash Dividends Declared (\$0.48 per share)									
Purchase of Common Stock	(800,000)	(8)				(24,818)			(24,826)
Proceeds From Exercise of Stock Options	71,867	1				1,101			1,102
Tax Benefit on Stock Option Exercise					224				224
Stock-Based Compensation					121				121
Change in Fair Value of Derivatives During Period, Net of Tax, and Realized Gains								(640)	(640)
Deferred Compensation Obligation			(135)	135					
Change in Unrealized Gain on Securities Available For Sale, Net of Tax and Realized Gains								625	625
BALANCE SEPTEMBER 30, 2006	14,674,258	\$ 147	(\$1,712)	\$ 1,712	\$ 60,045	\$ 169,153	(\$7,001)		\$ 222,344

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

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INDEPENDENT BANK CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited Dollars in Thousands)

	NINE MONTHS ENDED	
	SEPTEMBER 30,	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 24,749	\$ 24,642
ADJUSTMENTS TO RECONCILE NET INCOME TO		
NET CASH PROVIDED FROM OPERATING ACTIVITIES:		
Depreciation and amortization	4,238	4,517
Provision for loan losses	1,630	3,105
Deferred income tax expense	(127)	(5,079)
Loans originated for resale	(123,804)	(149,935)
Proceeds from mortgage loan sales	118,987	154,844
Gain on sale of mortgages	(1,116)	(1,192)
Proceeds from Bank Owned Life Insurance	(1,316)	
Loss/(gain) on sale of investments	1,769	(616)
Other Real Estate Owned	(190)	
Gain recorded from mortgage servicing rights, net of amortization	321	325
Stock based compensation expense	121	
Tax benefit from stock option exercises		206
Changes in assets and liabilities:		
Decrease in other assets	526	766
Increase in other liabilities	1,331	3,035
TOTAL ADJUSTMENTS	2,370	9,976
NET CASH PROVIDED FROM OPERATING ACTIVITIES	27,119	34,618
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities and principal repayments of Securities Held to Maturity	5,943	3,023
Proceeds from maturities and principal repayments and sales of Securities Available For Sale	85,782	185,260
Purchase of Securities Available For Sale		(121,418)
Sale/(purchase) of Federal Home Loan Bank Stock	6,653	(874)
Net increase in Loans	(6,008)	(108,326)
Investment in Bank Premises and Equipment	(2,994)	(3,541)
NET CASH PROVIDED FROM (USED IN) INVESTING ACTIVITIES	89,376	(45,876)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in Time Deposits	61,943	72,006
Net (decrease) increase in Other Deposits	(86,827)	40,249
Net increase in Federal Funds Purchased and Assets Sold Under Repurchase Agreements	2,907	28,816
Net decrease in Federal Home Loan Bank Borrowings	(77,088)	(114,414)

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Net decrease in Treasury Tax and Loan Notes	(3,846)	(2,720)
Proceeds from exercise of stock options	1,102	1,072
Excess tax benefit from stock option exercises	224	
Payments for purchase of common stock	(24,826)	
Dividends paid	(7,132)	(6,757)
NET CASH (USED IN) PROVIDED FROM FINANCING ACTIVITIES	(133,543)	18,252
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(17,048)	6,994
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	129,951	65,696
CASH AND CASH EQUIVALENTS AS OF SEPTEMBER 30,	\$ 112,903	\$ 72,690
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the nine months for:		
Interest on deposits and borrowings	\$ 44,904	\$ 33,919
Income taxes	12,299	10,245
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Change in fair value of derivatives, net of tax and realized gains	(640)	696
Change in fair value of securities available for sale, net of tax and realized gains	625	(7,132)

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

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Independent Bank Corp. (the Company) is a state chartered, federally registered bank holding company headquartered in Rockland, Massachusetts incorporated in 1986. The Company is the sole stockholder of Rockland Trust Company (Rockland or the Bank), a Massachusetts trust company chartered in 1907. The Company has established Independent Capital Trust III (Trust III) and Independent Capital Trust IV (Trust IV), each of which have issued trust preferred securities to the public. Trust III and Trust IV are not included in the Company's consolidated financial statements. The Bank's subsidiaries consist of: three Massachusetts securities corporations, RTC Securities Corp. I, RTC Securities Corp. X, and Taunton Avenue Securities Corp.; Taunton Avenue, Inc.; Rockland Trust Community Development LLC (RTC CDE I), Rockland Trust Community Development Corporation II (RTC CDE II), and Rockland Trust Community Development Corporation (Parent CDE). Taunton Avenue, Inc. was formed in May 2003 to hold loans, industrial development bonds and other assets. RTC CDE I and RTC CDE II were formed in August 2003 and August 2005, respectively, to make loans and to provide financial assistance to qualified businesses and individuals in low-income communities in accordance with the U.S. Treasury's New Markets Tax Credit Program criteria. Parent CDE was formed in August 2006 to act as the parent of both RTC CDE I and RTC CDE II. All material intercompany balances and transactions have been eliminated in consolidation. When necessary, certain amounts in prior year financial statements have been reclassified to conform to the current year's presentation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of the financial statements, primarily consisting of normal recurring adjustments, have been included. Operating results for the quarter and nine months ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ended December 31, 2006 or any other interim period. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005 filed with the Securities and Exchange Commission (SEC).

NOTE 2 STOCK-BASED COMPENSATION

The Company has five stock-based plans, all of which were approved by the Company's Board of Directors and shareholders, including the 2006 Plan (as defined below), which was approved by shareholders on April 13, 2006.

Amended and Restated 1987 Incentive Stock Option Plan (the 1987 Plan)

1996 Non-Employee Directors' Stock Option Plan (the 1996 Plan)

1997 Employee Stock Option Plan (the 1997 Plan)

2005 Employee Stock Plan (the 2005 Plan)

2006 Non-Employee Director Stock Plan (the 2006 Plan)

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The following table presents the amount of cumulatively granted options and restricted stock awards, net of cancellations, through September 30, 2006.

	Authorized Stock Option Awards	Authorized Restricted Stock Awards	Total	Cumulative Granted, Net of Cancellations
1987 Plan	800,000	N/A	800,000	586,813
1996 Plan	300,000	N/A	300,000	209,000
1997 Plan	1,100,000	N/A	1,100,000	1,074,572
2005 Plan	(1)	(1)	800,000	145,100(3)
2006 Plan	(2)	(2)	50,000	15,200(4)

(1) The Company may award up to a total of 800,000 shares as stock options or restricted stock awards.

(2) The Company may award up to a total of 50,000 shares as stock options or restricted stock awards.

(3) This amount represents 134,500 stock options and 10,600 restricted stock awards.

(4) This amount represents 10,000 stock options and 5,200 restricted stock awards.

At September 30, 2006, there were no shares available for grant under either the 1987 Plan or the 1996 Plan due to their expiration. Under the 2006 Plan, the 2005 Plan, the 1997 Plan, and the 1996 Plan the option exercise price equals the fair market value on the date of grant. All options granted under the 1997 Plan prior to December 15, 2005 vested between six months and two years from the date of grant and have ten-year contractual terms. All options granted on December 15, 2005 under either the 2005 Plan or the 1997 Plan vested immediately and have seven-year contractual terms. All options granted in 2006 under the 2005 Plan vest between six and 28 months from the date of grant and have seven-year contractual terms. All options granted under the 2006 Plan vest between the date of grant and approximately 21 months from the date of grant and have seven-year contractual terms. Options granted to date under all plans expire between 2007 and 2015. The Company issues shares for option exercises and restricted stock issuances from its pool of authorized but unissued shares.

On December 15, 2005, the Company's Board of Directors voted to accelerate the vesting of certain unvested out-of-the-money stock options awarded to employees pursuant to the 1997 Plan so that they immediately vested as of December 15, 2005. No other changes were made to the terms and conditions of the stock options affected by the Board vote. The Board vote approved the acceleration and immediate vesting of all unvested options with an exercise price of \$31.44 or greater per share. As a consequence of the Board vote, options to purchase 135,549 shares of the Company's common stock became exercisable immediately. The average of the high price and low price at which the Company's common stock traded on December 15, 2005, the date of the Board vote, was \$28.895 per share. The Company estimates that, as a result of this accelerated vesting, approximately \$710,000 of 2006 non-cash compensation expense and \$8,000 of 2007 non-cash compensation expense were eliminated that would otherwise have been recognized in the Company's earnings in accordance with Financial Accounting Standards Board (FASB) Statement No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123R).

On December 15, 2005, the Company granted 11,450 restricted stock awards to employees from the 2005 Plan. These awards vest evenly over a five-year period assuming continued employment with the Company. The holders of these awards participate fully in the rewards of stock ownership of the Company, including voting and dividend rights. The

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employees are not required to pay any consideration to the Company for the restricted stock awards. The Company measured the fair value of the shares based on the average of the high price and low price at which the Company's common stock traded on the date of the grant.

On April 18, 2006, the Company granted 5,200 restricted stock awards to non-employee directors from the 2006 Plan. These awards vest at the end of a five-year period, or earlier if the director ceases to be a director for any reason other than cause, for example, retirement. If a non-employee director is removed from the Board for cause, the Company has ninety (90) days within which to exercise a right to repurchase any unvested portion of any restricted stock award from the non-employee director for the aggregate price of One Dollar (\$1.00). The holders of these awards participate fully in the rewards of stock ownership of the Company, including voting and dividend rights. The directors are not required to pay any consideration to the Company for the restricted stock awards. The Company measured the fair value of the awards based on the average of the high price and low price at which the Company's common stock traded on the date of the grant.

Prior to January 1, 2006, the Company accounted for its stock-based plans under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), and related Interpretations, as permitted by SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123). No compensation cost was recognized for stock options in the Consolidated Statement of Income for the periods ended on or prior to December 31, 2005, as options granted under those plans had an exercise price equal to or greater than the market value of the underlying common stock on the date of grant. However, there was compensation expense recorded in the year ended December 31, 2005 related to restricted stock awards in accordance with APB 25 in the amount of approximately \$3,000 before tax.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS 123R for all share-based payments, using the modified-prospective transition method. Under this transition method, compensation cost recognized in the quarter and nine months ended September 30, 2006 includes: (1) compensation expense recognized over the requisite service period for all share-based awards granted prior to, but not yet fully vested, as of January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123, and (2) compensation cost for all share-based awards granted on or subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. In accordance with the modified prospective transition method, the Company's Consolidated Financial Statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123R. Upon adoption of SFAS 123R, the Company elected to retain its method of valuation for share-based awards granted using the Black-Scholes option-pricing model which was also previously used for the Company's pro forma information required under SFAS 123. The Company is recognizing compensation expense for its awards on a straight-line basis over the requisite service period for the entire award (straight-line attribution method), ensuring that the amount of compensation cost recognized at any date at least equals the portion of the grant-date fair value of the award that is vested at that time.

The total stock-based compensation expense before tax recognized in earnings by the Company in the quarter and nine months ended September 30, 2006 was approximately \$40,000 and \$121,000, respectively. The portion of this expense related to restricted stock awards was approximately \$29,000 and \$68,000 in the quarter and nine months ended September 30, 2006, respectively.