

SUMMIT FINANCIAL GROUP INC  
Form 10-Q  
November 07, 2006

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UNITED STATES  
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**.  
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 **0-16587**

**Summit Financial Group, Inc.**  
(Exact name of registrant as specified in its charter)

<b>West Virginia</b>	<b>55-0672148</b>
(State or other jurisdiction	(IRS Employer
of	
incorporation or	Identification No.)
organization)	

<b>300 North Main Street</b>	
<b>Moorefield, West</b>	<b>26836</b>
<b>Virginia</b>	
(Address of principal	(Zip
executive offices)	Code)

**(304) 530-1000**  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities and 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. See definition of "accelerated filer and large accelerated filer 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

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock as of the latest practicable date.

**Common Stock, \$2.50 par value**  
**7,087,920 shares outstanding as of November 6, 2006**

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	Exhibit 11.	Statement re: Computation of Earnings per Share - Information contained in Note 2 to the Consolidated Financial Statements on page 9 of this Quarterly Report is incorporated herein by reference.
	<u>Exhibit 31.1</u>	Sarbanes-Oxley Act Section 302 Certification of Chief Executive Officer
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	<u>Exhibit 32.1</u>	Sarbanes-Oxley Act Section 906 Certification of Chief Executive Officer
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Summit Financial Group, Inc. and Subsidiaries  
**Consolidated Balance Sheets (unaudited)**

	September 30, 2006 (unaudited)	December 31, 2005 (*)	September 30, 2005 (unaudited)
<b>ASSETS</b>			
Cash and due from banks	\$ 11,604,346	\$ 22,535,761	\$ 20,830,680
Interest bearing deposits with other banks	119,013	1,536,506	2,196,744
Federal funds sold	399,000	3,650,000	3,573,000
Securities available for sale	246,331,602	223,772,298	215,757,195
Loans held for sale	6,509,914	16,584,990	12,695,050
Loans, net	895,265,891	793,766,837	729,431,309
Property held for sale	249,137	378,287	830,145
Premises and equipment, net	23,505,342	23,089,412	21,163,790
Accrued interest receivable	6,079,101	4,835,763	4,392,003
Intangible assets	3,234,308	3,347,672	3,385,460
Other assets	17,192,969	16,034,499	14,847,760
<b>Total assets</b>	<b>\$ 1,210,490,623</b>	<b>\$ 1,109,532,025</b>	<b>\$ 1,029,103,136</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
<b>Deposits</b>			
Non interest bearing	\$ 64,750,662	\$ 62,631,410	\$ 69,346,345
Interest bearing	800,311,691	611,269,308	559,572,582
<b>Total deposits</b>	<b>865,062,353</b>	<b>673,900,718</b>	<b>628,918,927</b>
Short-term borrowings	90,422,000	182,028,113	139,680,652
Long-term borrowings	144,274,780	150,911,835	168,041,711
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589,000	19,589,000	11,341,000
Other liabilities	10,512,864	9,299,134	8,692,039
<b>Total liabilities</b>	<b>1,129,860,997</b>	<b>1,035,728,800</b>	<b>956,674,329</b>
<b>Commitments and Contingencies</b>			
<b>Shareholders' Equity</b>			
Common stock and related surplus, \$2.50 par value; authorized 20,000,000 shares, issued and outstanding			
2006 - 7,102,720 shares; issued December 2005 - 7,126,220			
shares; issued September 2005 - 7,125,820 shares	18,310,230	18,856,774	18,776,686
Retained earnings	63,159,114	56,214,807	54,912,652
Accumulated other comprehensive income	(839,718)	(1,268,356)	(1,260,531)
<b>Total shareholders' equity</b>	<b>80,629,626</b>	<b>73,803,225</b>	<b>72,428,807</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,210,490,623</b>	<b>\$ 1,109,532,025</b>	<b>\$ 1,029,103,136</b>

(\*) - December 31, 2005 financial information has been extracted from audited consolidated financial statements

See Notes to Consolidated Financial Statements

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Summit Financial Group, Inc. and Subsidiaries  
**Consolidated Statements of Income (unaudited)**

	Three Months Ended		Nine Months Ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
<b>Interest income</b>				
Interest and fees on loans				
Taxable	\$ 18,102,418	\$ 12,422,549	\$ 50,179,652	\$ 33,420,963
Tax-exempt	113,551	104,328	315,199	320,841
Interest and dividends on securities				
Taxable	2,451,769	1,750,451	6,836,439	5,228,816
Tax-exempt	546,050	533,000	1,594,960	1,603,999
Interest on interest bearing deposits with other banks				
	2,860	22,743	23,397	68,281
Interest on Federal funds sold	13,482	3,684	29,717	10,960
<b>Total interest income</b>	<b>21,230,130</b>	<b>14,836,755</b>	<b>58,979,364</b>	<b>40,653,860</b>
<b>Interest expense</b>				
Interest on deposits	7,760,937	3,508,549	19,321,871	8,951,622
Interest on short-term borrowings	1,777,008	1,314,966	5,571,751	3,124,289
Interest on long-term borrowings and subordinated debentures	2,461,623	2,203,152	7,393,608	6,009,161
<b>Total interest expense</b>	<b>11,999,568</b>	<b>7,026,667</b>	<b>32,287,230</b>	<b>18,085,072</b>
<b>Net interest income</b>	<b>9,230,562</b>	<b>7,810,088</b>	<b>26,692,134</b>	<b>22,568,788</b>
Provision for loan losses	410,000	424,400	1,285,000	1,179,400
<b>Net interest income after provision for loan losses</b>	<b>8,820,562</b>	<b>7,385,688</b>	<b>25,407,134</b>	<b>21,389,388</b>
<b>Other income</b>				
Insurance commissions	218,771	222,024	695,734	605,189
Service fees	699,718	711,141	2,056,051	1,908,848
Mortgage origination revenue	4,027,645	7,303,889	16,556,948	20,272,788
Securities gains (losses)	-	38,828	-	44,179
Gain (loss) on sale of assets	(4,290)	(592)	(8,165)	(1,667)
Other	135,196	189,863	417,727	518,540
<b>Total other income</b>	<b>5,077,040</b>	<b>8,465,153</b>	<b>19,718,295</b>	<b>23,347,877</b>
<b>Other expense</b>				
Salaries and employee benefits	4,302,421	5,434,668	14,315,068	15,371,119
Net occupancy expense	564,666	479,174	1,705,782	1,371,132
Equipment expense	553,104	464,691	1,648,470	1,440,885
Supplies	228,839	167,965	688,620	507,100
Professional fees	374,184	230,496	1,148,537	699,179
Postage	1,678,196	1,450,635	5,219,246	4,475,850
Advertising	1,191,490	1,163,782	3,844,639	3,710,634
Amortization of intangibles	37,788	37,788	113,364	113,364
Other	1,439,370	1,448,525	4,775,177	4,118,633
<b>Total other expense</b>	<b>10,370,058</b>	<b>10,877,724</b>	<b>33,458,903</b>	<b>31,807,896</b>
<b>Income before income taxes</b>	<b>3,527,544</b>	<b>4,973,117</b>	<b>11,666,526</b>	<b>12,929,369</b>
Income tax expense	1,046,850	1,700,175	3,580,600	4,129,282
<b>Net income</b>	<b>\$ 2,480,694</b>	<b>\$ 3,272,942</b>	<b>\$ 8,085,926</b>	<b>\$ 8,800,087</b>

<b>Basic earnings per common share</b>	\$	0.35	\$	0.46	\$	1.13	\$	1.24
<b>Diluted earnings per common share</b>	\$	0.35	\$	0.45	\$	1.12	\$	1.22
<b>Average common shares outstanding</b>								
<b>Basic</b>		7,127,650		7,125,483		7,130,276		7,082,418
<b>Diluted</b>		7,187,274		7,211,331		7,194,351		7,207,937
<b>Dividends per common share</b>	\$	-	\$	-	\$	0.16	\$	0.14

See Notes to Consolidated Financial Statements



Summit Financial Group, Inc. and Subsidiaries**Consolidated Statements of Shareholders' Equity (unaudited)**

	<b>Preferred Stock and Related Surplus</b>	<b>Common Stock and Related Surplus</b>	<b>Retained Earnings</b>	<b>Treasury Stock</b>	<b>Accumulated Other Compre- hensive Income</b>	<b>Total Share- holders' Equity</b>
<b>Balance, December 31, 2005</b>	\$ -	\$ 18,856,774	\$ 56,214,807	\$ -	\$ (1,268,356)	\$ 73,803,225
<b>Nine Months Ended September 30, 2006</b>						
Comprehensive income:						
Net income	-	-	8,085,926	-	-	8,085,926
Other comprehensive income, net of deferred tax benefit of \$262,714:						
Net unrealized gain on securities of \$428,638, net of reclassification adjustment for gains included in net income of \$0	-	-	-	-	428,638	428,638
Total comprehensive income						8,514,564
Exercise of stock options	-	43,543	-	-	-	43,543
Excess tax benefit on stock-based compensation	-	26,470	-	-	-	26,470
Repurchase of common shares	-	(616,557)	-	-	-	(616,557)
Cash dividends declared (\$ .16 per share)	-	-	(1,141,619)	-	-	(1,141,619)
<b>Balance, September 30, 2006</b>	\$ -	\$ 18,310,230	\$ 63,159,114	\$ -	\$ (839,718)	\$ 80,629,626
<b>Balance, December 31, 2004</b>	\$ 1,158,471	\$ 18,123,492	\$ 47,108,898	\$ (627,659)	\$ (55,181)	\$ 65,708,021
<b>Nine Months Ended September 30, 2005</b>						

Comprehensive income:								
Net income	-	-	8,800,087	-	-	8,800,087		
Other comprehensive income, net of deferred tax benefit of (\$738,763):								
Net unrealized (loss) on securities of (\$1,232,741), net of reclassification adjustment for gains included in net income of \$27,391	-	-	-	-	(1,205,350)	(1,205,350)		
Total comprehensive income						7,594,737		
Exercise of stock options	-	122,382	-	-	-	122,382		
Conversion of preferred shares	(1,158,471)	1,158,471	-	-	-	-		
Retirement of treasury shares	-	(627,659)	-	627,659	-	-		
Cash dividends declared (\$ .14 per share)	-	-	(996,333)	-	-	(996,333)		
<b>Balance, September 30, 2005</b>	\$	-	\$ 18,776,686	\$ 54,912,652	\$	-	\$ (1,260,531)	\$ 72,428,807

See Notes to Consolidated Financial Statements

Summit Financial Group, Inc. and Subsidiaries  
**Consolidated Statements of Cash Flows (unaudited)**

	<b>Nine Months Ended</b>	
	<b>September 30, 2006</b>	<b>September 30, 2005</b>
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 8,085,926	\$ 8,800,087
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	1,313,456	1,260,195
Provision for loan losses	1,285,000	1,179,400
Stock compensation expense	26,470	-
Deferred income tax (benefit)	(339,450)	(229,618)
Loans originated for sale	(189,951,707)	(236,456,985)
Proceeds from loans sold	206,595,684	246,429,843
(Gain) on sales of loans held for sale	(6,568,901)	(8,393,992)
Securities (gains)	-	(44,179)
Loss on disposal of premises, equipment and other assets	8,165	1,667
Amortization of securities premiums, net	97,582	526,624
Amortization of goodwill and purchase accounting adjustments, net	122,013	122,013
(Decrease) in accrued interest receivable	(1,243,338)	(740,097)
(Increase) in other assets	(186,793)	(747,291)
Increase in other liabilities	1,194,607	1,725,328
<b>Net cash provided by operating activities</b>	<b>20,438,714</b>	<b>13,432,995</b>
<b>Cash Flows from Investing Activities</b>		
Net (increase) decrease in interest bearing deposits with other banks	1,417,493	141,953
Proceeds from maturities and calls of securities available for sale	8,572,439	7,077,028
Proceeds from sales of securities available for sale	14,921,400	11,307,578
Principal payments received on securities available for sale	18,488,157	24,827,642
Purchases of securities available for sale	(63,964,260)	(49,995,187)
Net (increase) decrease in Federal funds sold	3,251,000	(3,525,000)
Net loans made to customers	(102,833,730)	(128,177,978)
Purchases of premises and equipment	(1,763,132)	(1,647,978)
Proceeds from sales of premises, equipment and other assets	197,546	99,500
Purchase of life insurance contracts	(880,000)	(2,500,000)
<b>Net cash (used in) investing activities</b>	<b>(122,593,087)</b>	<b>(142,392,442)</b>
<b>Cash Flows from Financing Activities</b>		
Net increase in demand deposit, NOW and savings accounts	25,773,434	56,922,876
Net increase in time deposits	165,383,132	47,426,912
Net increase (decrease) in short-term borrowings	(91,606,113)	19,051,438
Proceeds from long-term borrowings	18,551,000	32,764,000
Repayment of long-term borrowings	(25,163,862)	(24,917,367)
Exercise of stock options	43,543	122,382
Dividends paid	(1,141,619)	(996,333)
Repurchase of Common Stock	(616,557)	-

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<b>Net cash provided by financing activities</b>	91,222,958	130,373,908
Increase (decrease) in cash and due from banks	(10,931,415)	1,414,461
<b>Cash and due from banks:</b>		
Beginning	22,535,761	19,416,219
Ending	\$ 11,604,346	\$ 20,830,680