MAIN STREET TRUST INC
Form 10-Q
May 10, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 2006

Commission File Number: 0-30031

MAIN STREET TRUST, INC.
(Exact name of Registrant as specified in its charter)

Illinois	37-1338484
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

100 West University, Champaign, Illinois 61820
(Address of principal executive offices) (Zip Code)

(217) 351-6500
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. X Yes ____ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.
Large accelerated filer ____ Accelerated filer X Non-accelerated filer ____

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

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

Main Street Trust, Inc. Common Stock	10,135,027

1

Table of Contents

	PAGE
(a) PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements (Unaudited)	3
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	11
Item 3. Quantitative and Qualitative Disclosures about Market Risk	28
Item 4. Controls and Procedures	28
(b) PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	28
Item 1.A. Risk Factors	28
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	28
Item 3. Defaults Upon Senior Securities	28
Item 4. Submission of Matters to a Vote of Security Holders	29
Item 5. Other Information	29
Item 6. Exhibits	29
SIGNATURES	29

2

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2006
ASSETS	

Cash and due from banks	$ 41,595
Federal funds sold and interest bearing deposits	11,758
Cash and cash equivalents	53,353
Investments in debt and equity securities:	
Available-for-sale, at fair value	368,318
Held-to-maturity, at cost (fair value of $83,455 and $75,665 at March 31, 2006 and December 31, 2005, respectively)	84,834
Non-marketable equity securities	24,593
Total investments in debt and equity securities	477,745
Loans, net of allowance for loan losses of $13,599 and $13,472 at March 31, 2006 and December 31, 2005, respectively	961,564
Mortgage loans held for sale	1,696
Premises and equipment	22,841
Goodwill	20,736
Core deposit intangibles	4,351
Accrued interest receivable	10,915
Other assets	28,168
Total assets	$ 1,581,369
LIABILITIES AND SHAREHOLDERS' EQUITY	
Liabilities:	
Deposits:	
Non-interest bearing	$ 219,356
Interest bearing	1,033,369
Total deposits	1,252,725
Federal funds purchased, repurchase agreements and notes payable	115,346
Federal Home Loan Bank advances and other borrowings	47,766
Accrued interest payable	4,510
Other liabilities	15,913
Total liabilities	1,436,260
Commitments and financial instruments (See Note 5)	
Shareholders' equity:	
Preferred stock, no par value; 2,000,000 shares authorized	--
Common stock, $0.01 par value; 15,000,000 shares authorized; 11,219,319 shares issued	112
Paid in capital	55,346
Retained earnings	122,569
Accumulated other comprehensive loss	(2,318)
	175,709
Less: treasury stock, at cost, 1,086,444 and 1,072,644 shares at March 31, 2006 and December 31, 2005, respectively	(30,600)
Total shareholders' equity	145,109
Total liabilities and shareholders' equity	$ 1,581,369

See accompanying notes to unaudited consolidated financial statements.

3

MAIN STREET TRUST, INC. AND SUBSIDIARIES
Consolidated Statements of Income
For the Three Months Ended March 31, 2006 and 2005
(Unaudited, in thousands, except share data)

	2006	2005
Interest income:		
Loans and fees on loans	$ 16,795	$ 11,4
Investments in debt and equity securities:		
Taxable	4,106	2,3
Tax-exempt	330	4
Federal funds sold and interest bearing deposits	297	2
Total interest income	21,528	14,3
Interest expense:		
Deposits	7,418	3,6
Federal funds purchased, repurchase agreements and notes payable	1,151	5
Federal Home Loan Bank advances and other borrowings	681	3
Total interest expense	9,250	4,4
Net interest income	12,278	9,8
Provision for loan losses	450	3
Net interest income after provision for loan losses	11,828	9,5
Non-interest income:		
Trust and brokerage fees	1,915	1,8
Remittance processing	1,765	1,7
Service charges on deposit accounts	685	5
Securities transactions, net	267	1
Gain on sales of mortgage loans, net	126	1
Other	761	6
Total non-interest income	5,519	5,0
Non-interest expense:		
Salaries and employee benefits	5,921	4,9
Occupancy	792	6
Equipment	615	6
Data processing	738	5
Office supplies	296	2
Service charges from correspondent banks	64	1
Amortization of core deposit intangibles	218	--
Other	1,401	1,2
Total non-interest expense	10,045	8,4
Income before income taxes	7,302	6,1
Income taxes	2,612	2,2
Net income	$ 4,690	$ 3,9

Per share data:		
Basic earnings per share	$ 0.46	$ 0.
Weighted average shares of common stock outstanding	10,141,775	9,453,1
Diluted earnings per share	$ 0.46	$ 0.
Weighted average shares of common stock and dilutive potential common shares outstanding	10,264,692	9,554,6

See accompanying notes to unaudited consolidated financial statements.

MAIN STREET TRUST, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
For the Three Months Ended March 31, 2006 and 2005
(Unaudited, in thousands)

	2006	20
Net income	$ 4,690	$ 3,
Other comprehensive (loss), before tax:		
Unrealized (losses) on securities:		
Unrealized holding (losses) arising during period, net of tax of ($373) and ($988), for March 31, 2006 and 2005, respectively	(561)	(1,
Less: reclassification adjustment for (gains) included in net income, net of tax of ($107) and ($76), for March 31, 2006 and 2005, respectively	(160)	(
Other comprehensive loss	(721)	(1,
Comprehensive income	$ 3,969	$ 2,

See accompanying notes to unaudited consolidated financial statements.

MAIN STREET TRUST, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2006 and 2005
(Unaudited, in thousands)

	2006	2005
Cash flows from operating activities:		
Net income	$ 4,690	$ 3,933
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	639	594

Amortization of bond discounts and premiums, net	137	455
Amortization of core deposit intangibles	218	--
Provision for loan losses	450	330
Securities transactions, net	(267)	(190)
Federal Home Loan Bank stock dividend	--	(58)
Undistributed gain from non-marketable equity securities	226	26
Gain on sales of mortgage loans, net	(126)	(137)
Proceeds from sales of mortgage loans originated for sale	11,580	9,749
Mortgage loans originated for sale	(11,489)	(9,184)
Stock based compensation expense	157	--
Other, net	(3,672)	2,260
Net cash provided by operating activities	2,543	7,778
Cash flows from investing activities:		
Net decrease (increase) in loans	40,358	(3,173)
Proceeds from maturities and calls of investments in debt securities:		
Held-to-maturity	1,683	1,589
Available-for-sale	1,670	27,925
Proceeds from sales of investments:		
Available-for-sale	2,493	3,931
Purchases of investments in debt and equity securities:		
Held-to-maturity	(11,116)	(4,257)
Available-for-sale	(31,916)	(15)
Other equity securities	(500)	--
Principal paydowns from mortgage-backed securities:		
Held-to-maturity	1,055	1,407
Available-for-sale	1,537	2,890
Return of principal on other equity securities	675	--
Purchases of premises and equipment	(433)	(416)
Net cash provided by investing activities	5,506	29,881
Cash flows from financing activities:		
Net (decrease) in deposits	(23,247)	(16,126)
Net (decrease) increase in federal funds purchased, repurchase agreements, and notes payable	(3,106)	11,918
Payments on Federal Home Loan Bank and other borrowings	(19,620)	(2,311)
Cash dividends paid	(2,334)	(2,079)
MSTI stock transactions, net	(455)	276
Net cash (used in) financing activities	(48,762)	(8,322)
Net increase (decrease) in cash and cash equivalents	(40,713)	29,337
Cash and cash equivalents at beginning of year	94,066	64,928
Cash and cash equivalents at end of period	$ 53,353	$ 94,265
Cash paid during the year for:		
Interest	$ 9,397	$ 4,205
Income taxes	575	110
Real estate acquired through or in lieu of foreclosure	555	--
Dividends declared not paid	2,331	2,081

See accompanying notes to unaudited consolidated financial statements.

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

Note 1. Basis of Presentation

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

In the opinion of management, the consolidated financial statements of Main Street Trust, Inc. and its subsidiaries, as of March 31, 2006 and for the three-month periods ended March 31, 2006 and 2005, include all adjustments necessary for a fair presentation of the results of those periods. All such adjustments, outside of those related to the business combination discussed in Note 2, are of a normal recurring nature.

Results of operations for the three-month period ended March 31, 2006 are not necessarily indicative of the results which may be expected for the year ended December 31, 2006.

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and due from banks and federal funds sold and interest bearing deposits. Generally, federal funds are sold for one-day periods.

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

Note 2. Company Information/Business Combination

Main Street Trust, Inc. (the "Company"), an Illinois corporation, is a bank holding company registered under the Bank Holding Company Act of 1956, as amended. The Company was incorporated on August 12, 1999, and is the parent company of Main Street Bank & Trust (the "Bank") and FirsTech, Inc. On June 14, 2001, the Company was certified by the Board of Governors of the Federal Reserve System as a financial holding company. This designation allows the Company to engage in a wider range of nonbanking activities, including greater authority to engage in securities and insurance activities. However, the Company has no current plans to do so.

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

Pro forma unaudited operating results for the three months ended March 31, 2005 giving effect to the Citizens acquisition as if it had occurred prior to January 1, 2005 are as follows:

	2005 (in thousands, except per share data)
Interest Income	$ 18,559
Interest Expense	6,088
Net Income	3,922
Basic EPS	0.38
Diluted EPS	0.38

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

7

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

Note 3. Income per Share

Net income per common share has been computed as follows:

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Net Income	$ 4,690,000	$ 3,933,000
Shares:		
Weighted average common shares outstanding	10,141,775	9,453,196

Dilutive effect of outstanding options, as determined by the application of the treasury stock method	122,917	101,501
Weighted average common shares outstanding, as adjusted	10,264,692	9,554,697
Basic earnings per share	$ 0.46	$ 0.42
Diluted earnings per share	$ 0.46	$ 0.41

Note 4: Stock Option Plans

At March 31, 2006, the Company has one share-based compensation plan. Prior to January 1, 2006, the Company accounted for that plan under the recognition and measurement provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations, as permitted by FASB Statement No. 123, Accounting for Stock Stock-Based Compensation. No stock-based compensation cost was recognized in the Statement of Income for the period ended March 31, 2005, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of grant. Effective January 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123(R), Share-Based Payment, using the modified-prospective-transition method. Under that transition method, compensation cost recognized in 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of Statement 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of Statement 123(R). Results for prior periods have not been restated.

As a result of adopting Statement 123(R) on January 1, 2006, the Company's income before income taxes and net income for the period ended March 31, 2006, were $157,000 and $94,000 lower, respectively, than if it had continued to account for share-based compensation under APB Opinion No. 25. Basic and diluted earnings per share for the period ended March 31, 2006 would have been $0.47 and $0.47, respectively, if the Company had not adopted Statement 123(R), compared to reported basic and diluted earnings per share of $0.46 and $0.46, respectively.

Prior to the adoption of Statement 123(R), the Company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Statement of Cash Flows. Statement 123(R) requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. For the three months ended March 31, 2006, there was no excess tax benefit classified as a financing cash inflow that would have been classified as an operating cash flow if the Company had not adopted Statement 123(R).

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

	Three Months Ended March 31, 2005 (in thousands except per share data)
Net income on common stock:	
As reported	$ 3,933
Deduct total stock-based compensation expense determined under the fair value method for all awards, net of related tax effects	(91)
Pro forma	$ 3,842
Basic earnings per share:	
As reported	$ 0.42
Pro forma	0.41
Diluted earnings per share:	
As reported	$ 0.41
Pro forma	0.40

The Main Street Trust, Inc. 2000 Stock Incentive Plan (the "Plan"), which is shareholder-approved, permits the grant of options for up to 2,205,000 shares of the Company's common stock. The Board of Directors, or a committee appointed by the Board, may issue options that constitute incentive stock options to officers and employees and nonqualified options to directors, officers, employees, consultants and advisors of the Company and its related corporations (provided that such consultants and advisors render bona fide services not in connection with the offer and sale of securities in a capital-raising transaction). Restricted stock and stock appreciation rights ("SARs") may also be granted. SARs may be granted separately or in tandem with or by reference to an option granted prior to or simultaneously with the grant of such rights, to such eligible directors, officers, employees, consultants and advisors as may be selected by the Board of Directors. The Plan is intended to provide a means whereby directors, officers, employees, consultants and advisors of the Company and its related corporations may sustain a sense of proprietorship and personal involvement in the continued development and financial success of the Company and its related corporations, and to encourage them to remain with and devote their best efforts to the business of the Company and its related corporations, thereby advancing the interests of the Company and its shareholders. Grants under the Plan to date have been nonqualified options granted to directors and officers. Options granted under the Plan have an exercise price equal to market value of the underlying common stock on the grant date. Existing director options granted prior to 2003 are fully vested and exercisable on the date granted while director options granted in or after 2003 vest ratably over a one-year period from the date granted. Existing officer options vest ratably over a three-year period from the date granted. All outstanding options have a 10 year contractual life. Dividends are not paid on unexercised options. In the event of a change of control, options and SARs become immediately and fully exercisable.

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

	Three Months Ended March 31, 2006	2005
Number of options granted	150,500	136,500
Risk-free interest rate	4.59% - 4.65%	3.98% - 4.08%
Expected life, in years	6.50 - 8.00	7.00 - 8.00
Expected volatility	14.28%	15.42%
Expected dividend yield	3.06%	2.97%

9

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

A summary of option activity under the Plan as of March 31, 2006, and changes since January 1, 2006 is presented below:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life
Outstanding as of January 1, 2006	767,413	$ 23.46	
Granted	150,500	30.10	
Exercised	(5,200)	17.71	
Forfeited or expired	(965)	30.10	
Outstanding at March 31, 2006	911,748	24.58	6.8
Vested at March 31, 2006	682,772	22.76	6.0
Exercisable as of March 31, 2006	682,772	22.76	6.0

The weighted-average grant-date fair value of options granted during the first three months of 2006 and 2005 was $4.79 and $4.72, respectively. The total intrinsic value of options exercised during the first three months of 2006 and 2005, was $63,000 and $123,000, respectively. The fair value of nonvested shares is determined based on the market price of the Company's shares on the grant date.

A summary of the status of the Company's nonvested shares as of March 31, 2006, and changes since January 1, 2006 is presented below:

Nonvested shares	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2006	112,950	$ 4.83
Granted	150,500	4.79
Vested	(33,509)	4.78
Forfeited	(965)	4.69
Nonvested at March 31, 2006	228,976	4.81

As of March 31, 2006, there was $1.034 million of total unrecognized compensation cost related to nonvested stock option compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 2.0 years. The total fair value of shares vested during the three month periods ended March 31, 2006 and 2005, was $4.78 and $4.59, respectively.

Note 5. Commitments and Financial Instruments

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

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

The following table summarizes these financial instruments and commitments (in thousands) at March 31, 2006 and 2005:

	March 31,	
	2006	2005
Financial instruments whose contract amounts represent credit risk:		
Commitments	$343,247	$267,522
Standby letters of credit	35,047	28,148

The acquisition of Citizens resulted in an additional $21.351 million in commitments and $549,000 in additional standby letters of credit at April 1, 2005.

The majority of commitments are agreements to extend credit to a customer as long as there is no violation of any condition established in the contract. Commitments, principally variable interest rates, generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. For commitments to extend credit, the Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies, but may include accounts receivable; inventory; property, plant and equipment; and income-producing commercial properties. Also included in commitments at March 31, 2006 was $1.830 million to purchase other equity securities.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements and, generally, have terms of one year or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank may hold collateral, which include accounts receivables, inventory, property and equipment, and income producing properties, supporting those commitments, if deemed necessary. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Bank would be required to fund the commitment. The maximum potential amount of future payments the Bank could be required to make is represented by the contractual amount shown in the summary above. If the commitment is funded, the Bank would be entitled to seek recovery from the customer. At March 31, 2006 and 2005, no amounts had been recorded as liabilities for the Bank's potential obligations under these guarantees.

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

Financial Condition

Assets and Liabilities

Total assets decreased $43.768 million, or 2.7%, to $1.581 billion at March 31, 2006 compared to $1.625 billion at December 31, 2005. Decreases in loans, federal funds sold and interest bearing deposits, cash and due from banks, non-marketable equity securities, core deposit intangibles and premises and equipment were partially offset by increases in both investments in debt and equity securities available for sale and held to maturity, other assets, accrued interest receivable and mortgage loans held for sale.

Cash and due from banks decreased $10.412 million, or 20.0%, to $41.595 million at March 31, 2006 compared to $52.007 million at December 31, 2005.

Federal funds sold and interest bearing deposits decreased $30.301 million, or 72.0%, to $11.758 million at March 31, 2006 compared to $42.059 million at December 31, 2005. Federal funds sold and interest bearing deposits fluctuate with loan demand, deposit volume and investment opportunities.

Total investments in debt and equity securities increased $33.122 million, or 7.4%, to $477.745 million at March 31, 2006 compared to $444.623 million at December 31, 2005. Included in the change were increases of $25.231 million, or 7.4%, in investments in securities available for sale and $8.292 million, or 10.8%, in securities held to maturity, offset somewhat by a decrease of

$401,000, or 1.6% in non-marketable equity securities. Investments fluctuate with loan demand, deposit volume and investment opportunities.

Loans, net of allowance for loan losses, decreased $41.363 million, or 4.1%, to $961.564 million at March 31, 2006 compared to $1.003 billion at December 31, 2005. Included in the change were decreases of $27.526 million, or 8.6%, in commercial, financial and agricultural loans; $7.054 million, or 1.5%, in commercial real estate loans; $4.348 million, or 5.0%, in installment and consumer loans; and $2.308 million, or 1.6%, in residential real estate loans. Management attributes most of the decrease in commercial, financial and agricultural loans to normal first quarter seasonality. Included in the $7.054 million decrease in commercial real estate loans was $15.826 million related to the expected payoff of one commercial project that was refinanced through a real estate conduit. Included in the $4.348 million decrease in installment and consumer loans was a $2.323 million decrease in indirect loans as the company had been unwilling to meet some of the underwriting and pricing available on these types of loans. As of March 31, 2006, the Company had an indirect loan portfolio of $14.923 million compared to $17.246 million at December 31, 2005. The $2.308 million decrease in residential real estate loans was attributed to a slow down in the residential real estate market as well as movement from adjustable rate loans that the Company keeps on its balance sheet to long term fixed loans that the Company sells in the secondary market. Although the Company's loan portfolio balance decreased during the first quarter of 2006 and competition remains strong, management believes that the loan portfolio balance will increase during the second quarter of 2006.

Mortgage loans held for sale increased $35,000, or 2.1%, to $1.696 million at March 31, 2006 compared to $1.661 million at December 31, 2005.

Premises and equipment decreased $206,000, or 0.9%, to $22.841 million at March 31, 2006 compared to $23.047 million at December 31, 2005. The decrease included depreciation and amortization expense of $639,000 offset somewhat by purchases of $433,000.

Core deposit intangibles, due to the acquisition of Citizens, decreased $218,000, or 4.8%, to $4.351 million at March 31, 2006 compared to $4.569 million at December 31, 2005 due to amortization.

Other assets increased $3.121 million, or 12.5%, to $28.168 million at March 31, 2006 compared to $25.047 million at December 31, 2005 primarily due to an increase in receivables of approximately $2.457 million due to the sale of investment securities which settled April 3, 2006 and an increase of approximately $497,000 in other real estate owned.

Total liabilities decreased $45.108 million, or 3.0%, to $1.436 billion at March 31, 2006 compared to $1.481 billion at December 31, 2005. There were decreases in all categories of liabilities except other liabilities.

Total deposits decreased $23.247 million, or 1.8%, to $1.253 billion at March 31, 2006 from $1.276 billion at December 31, 2005. Non-interest bearing deposits decreased $21.467 million, or 8.9%, to $219.356 million at March 31, 2006 from $240.823 million at December 31, 2005. This was mainly due to a $15.752 million decrease in the balance of one account between December 31, 2005 and March 31, 2006, as well as normal first quarter seasonality decreases. Interest "earing deposits decreased $1.780 million, or 0.2%, to $1.033 billion at March 31, 2006 from $1.035 billion at December 31, 2005.

Federal funds purchased, repurchase agreements and notes payable decreased $3.106 million, or 2.6%, to $115.346 million at March 31, 2006 from $118.452 million at December 31, 2005. Included in this change were decreases of $2.606 million in repurchase agreements and $500,000 in federal funds purchased.

Federal Home Loan Bank advances and other borrowings decreased $19.620 million, or 29.1%, to $47.766 million at March 31, 2006 compared to $67.386 million at December 31, 2005 primarily due to $18.000 million of matured FHLB advances and repayment of a $1.500 million line of credit from a correspondent bank.

Investment Securities

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

Carrying Value of Securities(1)
(in thousands)

	March 31, 2006	December 31, 2005
Available-for-sale:		
Federal agencies	$343,065	$312,484
Mortgage-backed securities	11,979	13,657
State and municipal	12,646	13,834
Marketable equity securities	628	3,112
Total available-for-sale	$368,318	$343,087
Held-to-maturity:		
Federal agencies	$ 38,590	$ 38,650
Mortgage-backed securities	26,556	17,091
State and municipal	19,688	20,801
Total held-to-maturity	$ 84,834	$ 76,542
Non-marketable equity securities:		
Federal Home Loan Bank stock	$ 21,450	$ 21,450
Other equity investments	3,143	3,544
Total non-marketable equity securities	$ 24,593	$ 24,994
Total investment securities	$477,745	$444,623

The following table shows the maturities and weighted-average yields of investment securities at March 31, 2006. All securities are shown at th%ir contractual maturity.

Maturities and Weighted Average Yields of
(dollars in thousands)

March 31, 2006					
1 year or less		1 to 5 years		5 to 10 years	
Amount	Rate	Amount	Rate	Amount	Rate

Securities available-for-sale:							
Federal agencies	$136,151	3.61%	$206,914	3.65%	$ --	--	$
Mortgage-backed securities(1)	$ 1,682	3.61%	$ 5,689	5.05%	$ 4,561	3.98%	$
State and municipal (TE)(2) ...	$ 3,272	4.81%	$ 6,633	6.48%	$ 2,267	7.62%	$
Marketable equity securities(3)	$ --	--	$ --	--	$ --	--	$
Total	$141,105		$219,236		$ 6,828		$
Average Yield (TE)(2)		3.64%		3.77%		5.19%	
Securities held-to-maturity:							
Federal agencies	$ 17,516	2.79%	$ 16,849	2.99%	$ 4,225	4.07%	$
Mortgage-backed securities(1)	$ 390	2.93%	$ 23,168	4.85%	$ 205	3.56%	$
State and municipal (TE)(2) ...	$ 9,336	5.12%	$ 9,997	6.17%	$ 195	7.31%	$
Total	$ 27,242		$ 50,014		$ 4,625		$
Average Yield (TE)(2)		3.59%		4.49%		4.18%	
Non-marketable equity securities(3):							
Federal Home Loan Bank stock ..	$ --	--	$ --	--	$ --	--	$
Other equity investments	$ --	--	$ --	--	$ --	--	$
Total	$ --	--	$ --	--	$ --	--	$

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

	Continuous unrealized losses existing for less than 12 months		Continuous unrealized losses existing greater than 12 months		Tot	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	U
Available-for-Sale:						
Federal agencies	$203,536	$ 1,307	$139,029	$ 2,902	$342,565	
Mortgage-backed securities	2,416	21	6,854	212	9,270	
State and municipal	--	--	3,190	64	3,190	
Total temporarily impaired securities	$205,952	$ 1,328	$149,073	$ 3,178	$355,025	

Held-to-Maturity:

Federal agencies	$ 488	$ 12	$ 37,118	$ 972	$ 37,606
Mortgage-backed securities	22,244	385	3,239	102	25,483
State and municipal	1,770	16	6,061	67	7,831
Total temporarily impaired securities	$ 24,502	$ 413	$ 46,418	$ 1,141	$ 70,920

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

For the period ended March 31, 2006, the $3.178 million continuous unrealized loss greater than 12 months on available-for-sale securities was made up of forty three debt securities and was believed to be a temporary loss. Marketable equity securities available-for-sale had no continuous unrealized loss greater than 12 months. The $1.141 million continuous unrealized loss greater than 12 months on held-to-maturity securities was made up of forty one debt securities and was believed to be a temporary loss.

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

Loans

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

Amount of Loans Outstanding
(dollars in thousands)

	March 31, 2006		December 31, 2005	
	Amount	Percentage	Amount	Percentage
Commercial, financial and agricultural	$ 292,335	29.98%	$ 319,861	31.47%
Real Estate - Commercial	462,452	47.42%	469,506	46.19%
Real Estate - Residential	137,996	14.15%	140,304	13.81%
Installment and consumer	82,380	8.45%	86,728	8.53%
Total loans	$ 975,163	100.00%	$1,016,399	100.00%

The balance of loans outstanding as of March 31, 2006 by maturity is shown in the following table:

Maturity of Loans Outstanding
(dollars in thousands)
March 31, 2006

	1 year or less	1 to 5 years	Over 5 years	Total
Commercial, financial and agricultural	$176,664	$ 86,605	$ 29,066	$ 292,335
Real Estate - Commercial	151,389	203,807	107,256	462,452
Real Estate - Residential	13,446	36,297	88,253	137,996
Installment and consumer	22,844	36,021	23,515	82,380
Total	$364,343	$362,730	$248,090	$975,163
Percentage of total loans outstanding	37.36%	37.20%	25.44%	100.00%

Capital

Total shareholders' equity increased $1.340 million from December 31, 2005 to March 31, 2006. Treasury stock transactions were $455,000 primarily due to purchases of treasury stock under the Company's stock repurchase plan offset somewhat by the exercise of stock options. Additional paid in capital increased $157,000 due to the implementation of the new Financial Accounting Standard Board (FASB) Statement No.123(R) at January 1, 2006. The change in shareholders' equity is summarized as follows:

Shareholders' Equity (in thousands)

Shareholders' equity, December 31, 2005	$ 143,769
Net income	4,690
Treasury stock transactions, net	(455)
Additional paid in capital	157
Cash dividends declared	(2,331)

Other comprehensive income	(721)
Shareholders' equity, March 31, 2006	$ 145,109

On March 28, 2006, the Board of Directors of the Company declared a quarterly cash dividend of $0.23 per share of the Company's common stock. The dividend of $2.331 million was paid on April 21, 2006, to holders of record on April 7, 2006.

16

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and its subsidiary bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of March 31, 2006, that the Company and its subsidiary bank exceeded all capital adequacy requirements to which they are subject.

As of March 31, 2006, the most recent notifications from primary regulatory agencies categorized the Company's subsidiary bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, banks must maintain minimum total capital to risk-weighted assets, Tier I capital to risk-weighted assets, and Tier I capital to average assets ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Company's subsidiary bank's categories.

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

	Actual		For capital adequacy purposes:		To be wel capitalized prompt corre action provi
	Amount	Ratio	Amount	Ratio	Amount
As of March 31, 2006:					
Total capital					
(to risk-weighted assets)					
Consolidated	$ 137,784	12.4%	$ 88,819	8.0%	N/A
Main Street Bank & Trust	$ 129,003	11.8%	$ 87,809	8.0%	$109,762
Tier I capital					

(to risk-weighted assets)					
Consolidated	$ 124,053	11.2%	$ 44,409	4.0%	N/A
Main Street Bank & Trust	$ 115,326	10.5%	$ 43,905	4.0%	$ 65,857
Tier I capital					
(to average assets)					
Consolidated	$ 124,053	7.9%	$ 62,857	4.0%	N/A
Main Street Bank & Trust	$ 115,326	7.4%	$ 62,295	4.0%	$ 77,868

Interest Rate Sensitivity

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

The following table presents the Company's interest rate sensitivity at various intervals at March 31, 2006:

	Rate Sensitivity of Earning Assets and Interest Bearin (dollars in thousands)				
	1-30 Days	31-90 Days	91-180 Days	181-365 Days	Ov 1 y
Interest earning assets:					
Federal funds sold and interest bearing deposits ...	$ 11,758	$ --	$ --	$ --	$
Debt and equity securities (1)	42,273	15,170	17,480	64,198	33
Loans (2)	325,492	45,211	45,538	101,219	45
Total earning assets ..	$ 379,523	$ 60,381	$ 63,018	$ 165,417	$ 79
Interest bearing liabilities:					
Savings and interest bearing demand deposits	$ 54,492	$ 1,692	$ 2,538	$ 5,075	$ 19
Money market savings deposits	307,695	--	--	--	
Time deposits	23,227	42,623	76,849	197,207	12
Federal funds purchased, repurchase agreements, and notes payable	85,898	11,340	7,118	10,990	
FHLB advances and other borrowings	9,075	21,000	8,075	4,616	
Total interest bearing liabilities	$ 480,387	$ 76,655	$ 94,580	$ 217,888	$ 32

Net asset (liability) funding gap	(100,864)	(16,274)	(31,562)	(52,471)	47
Repricing gap	0.79	0.79	0.67	0.76	
Cumulative repricing gap	0.79	0.79	0.77	0.77	

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

	1-30 Days	31-90 Days	91-180 Days	181-365 Days	Over
Savings and interest-bearing demand deposits	0.45%	0.85%	1.25%	2.45%	95.

At March 31, 2006, the Company was somewhat liability sensitive due to the levels of savings and interest bearing demand deposits, time deposits and federal funds purchased, repurchase agreements and notes payable. As such, the effect of an increase in the interest rate for all interest earning assets and interest bearing liabilities of 100 basis points would decrease annualized net interest income by approximately $1.009 million in 30 days and $1.171 million in 90 days, assuming no management intervention. A decrease in interest rates would have the opposite effect for the same time periods. The Company's Asset and Liability Management Policy states that the cumulative ratio of rate-sensitive assets ("RSA") to rate-sensitive liabilities ("RSL") for the 12-month period should fall within the range of 0.75-1.25. As of March 31, 2006, the Company's RSA/RSL was 0.77, which was within the established guidelines.

18

In addition to managing interest rate sensitivity and liquidity through the use of gap reports, the Company has provided for emergency liquidity situations with informal agreements with correspondent banks that permit the Company to borrow federal funds on an unsecured basis. Additionally, at March 31, 2006, the Company had a $15 million unsecured line of credit with a correspondent bank, all of which was available at that date. The Company also has sufficient capacity to permit it to borrow funds from the Federal Home Loan Bank on a secured basis (refer to the Liquidity and Cash Flows section that follows for additional information).

The Company uses financial forecasting/budgeting/reporting software packages to perform interest rate sensitivity analysis for all product categories. The Company's primary focus of its analysis is on the effect of interest rate increases and decreases on net interest income. Management believes that this analysis reflects the potential effects on current earnings of interest rate changes. Call criteria and prepayment assumptions are taken into consideration for investments in debt and equity securities. All of the Company's financial instruments are analyzed by a software database which includes each of the

different product categories which are tied to key rates such as prime, Treasury Bills, or the federal funds rate. The relationships of each of the different products to the key rate that the product is tied to is proportional. The software reprices the products based on current offering rates. The software performs interest rate sensitivity analysis by performing rate shocks of plus or minus 200 basis points in 100 basis point increments.

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

	Basis Point Change			
	+200	+100	-100	-200
December 31, 2005	8.9%	4.7%	(4.7%)	(9.4%)
March 31, 2006	6.0%	3.1%	(3.4%)	(6.5%)

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

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

Liquidity and Cash Flows

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

The Company was able to adequately fund loan demand and meet liquidity during the first quarter of 2006. A review of the consolidated statement of cash flows in the accompanying financial statements shows that the Company's cash and cash

equivalents decreased $40.713 million from December 31, 2005 to March 31, 2006. The decrease in 2006 resulted from cash used in financing activities, offset somewhat by cash provided by investing and operating activities. There were differences in sources and uses of cash during 2006 compared to 2005. Cash used in financing activities during 2006 was $48.605 million compared to $8.322 million during the same period in 2005, primarily due to more cash used by deposits, more payments on Federal Home Loan Bank advances and other borrowings and cash used versus cash provided by federal funds purchased, repurchase agreements and notes payable during the first three months of 2006 compared to the same period in 2005. Cash used by deposits of $23.247 million in 2006 was mainly the result of a decrease in non-interest bearing demand deposits of $21.467 million. Cash used by Federal Home Loan Bank advances and other borrowings of $19.620 million during the first quarter of 2006 was mainly the result of the maturities of $18.000 million of Federal Home Loan Bank advances during the first quarter of 2006. Cash of $3.106 million was used by federal funds purchased, repurchase agreements and notes payable during the first three months of 2006 compared to $11.918 million of cash provided during the same period in 2005.

Less cash was provided by investing activities during the first quarter of 2006 compared to the same period in 2005, primarily due to differences in investments in debt and equity securities and activity in the loan portfolio. Cash used by investment activities during the first quarter of 2006 was $34.419 million compared to cash provided of $33.470 million during the same period in 2005. In 2006, cash used to purchase d%bt and equity securities of $43.532 million was somewhat offset by proceeds of $9.113 million from maturities, calls and sales of debt and equity securities, principal paydowns on mortgage-backed securities and return of principal on other equity securities. During the same period in 2005, proceeds of $37.742 million from maturities, calls and sales of debt and equity securities and principal paydowns on mortgage-backed securities were offset somewhat by cash used to purchase debt and equity securities of $4.272 million. Also contributing to the difference in investing activities were changes in the loan portfolio during these two periods. Cash provided by loans during the first three months of 2006 was $40.358 million due to a decrease in gross loans, compared to cash used to fund loan growth of $3.173 million during the same period in 2005. Less cash was provided by operating activities in 2006 compared to 2005.

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

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

Critical Accounting Policies

The preparation of financial statements in conformity with accounting standards generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosures of contingent assets and liabilities. Actual results could differ from those estimates under

different assumptions and conditions. The Company believes that it has one critical accounting policy, allowance for loan losses, that is subject to estimates and judgements used in the preparation of its consolidated financial statements, and is described in more detail below.

Provision and Allowance for Loan Losses

The provision for loan losses is based on management's evaluation of the loan portfolio in light of national and local economic conditions, changes in the composition and volume of the loan portfolio, changes in the volume of past due and nonaccrual loans, and other relevant factors. The allowance for loan losses, which is reported as a deduction from loans, is available for loan charge-offs. The allowance is increased by the provision charged to expense and is reduced by loan charge-offs net of loan recoveries. The allowance is allocated between the commercial, financial and agricultural; commercial real estate; residential real estate; and installment and consumer loan portfolios according to the historical losses experienced in each of these portfolios as well as the current level of watch list loans and nonperforming loans for each portfolio. Loans for which borrower cash flow and the estimated liquidation value of collateral are inadequate to repay the total outstanding balance are evaluated separately and assigned a specific allocation. The unallocated portion of the allowance is determined by economic conditions and other factors mentioned above. The balance of the allowance for loan losses was $13.599 million at March 31, 2006 compared to $13.472 million at December 31, 2005, an increase of $127,000. Net charge-offs were $323,000 and the provision totaled $450,000 during the first three months of 2006 compared to net charge-offs of $25,000 and the provision totaled $330,000 for the first three months of 2005. The allowance for loan losses as a percentage of gross loans, including loans held-for-sale, was 1.39% at March 31, 2006, compared to 1.32% at December 31, 2005. Gross loans, including loans held-for-sale, decreased 4.0% to $976.859 million at March 31, 2006 from $1.018 billion at December 31, 2005.

One measure of the adequacy of the allowance for loan losses is the ratio of the allowance to nonperforming loans. The allowance for loan losses as a percentage of nonperforming loans was 176.1% at March 31, 2006 compared to 449.1% at December 31, 2005. Nonperforming loans increased from $3.000 million at December 31, 2005 to $7.723 million at March 31, 2006. The $4.723 million increase in nonperforming loans during the first three months of 2006 resulted from a $3.843 million increase in nonaccrual loans and an increase of $880,000 in loans past due 90 days or more. The increase in nonaccrual loans included the addition of three commercial real estate loans to a real estate developer that totaled $4.282 million. Increases in commercial, financial and agricultural loans and retail mortgage loans made up the bulk of the remaining increase in nonaccrual and 90-day delinquencies. Management believes that nonperforming and potential problem loans are appropriately identified and monitored based on the extensive loan analysis performed by the credit administration department, the internal loan committees and the board of directors. Historically, there have not been a significant amount of loans charged off which had not been previously identified as problem loans by the credit administration department or the loan committees.

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

Allowance for Loan Losses
(dollars in thousands)

	March 31, 2006	March 31, 2005

Allowance for loan losses at beginning of year	$ 13,472	$ 9,650
Charge-offs during period:		
Commercial, financial and agricultural	$ (165)	$ --
Commercial real estate	(67)	--
Residential real estate	(71)	--
Installment and consumer	(105)	(135)
Total	$ (408)	$ (135)
Recoveries of loans previously charged off:		
Commercial, financial and agricultural	$ 1	$ 6
Commercial real estate	--	5
Residential real estate	--	--
Installment and consumer	84	99
Total	$ 85	$ 110
Net (charge-offs) recoveries	$ (323)	$ (25)
Provision for loan losses	450	330
Allowance for loan losses at end of quarter	$ 13,599	$ 9,955
Ratio of net charge-offs to average net loans	(0.03)%	(0.01)%

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

Allocation of the Allowance for Loan Losses
(in thousands)

	March 31, 2006	December 31, 2005
Allocated:		
Commercial, financial and agricultural	$ 4,039	$ 4,433
Commercial real estate	7,422	5,991
Residential real estate	411	424
Installment and consumer	1,349	1,447
Total allocated allowance	$13,221	$12,295
Unallocated allowances	378	1,177
Total	13,599	13,472

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

Nonperforming Loans (dollars in thousands)

	March 31, 2006	December 31, 2005
Nonaccrual loans(1)	$6,077	$2,234
Loans past due 90 days or more	$1,646	$ 766
Restructured loans	$ 295	$ 324

Other Nonperforming Assets (dollars in thousands)

	March 31, 2006	December 31, 2005
Other real estate owned	$685	$188
Nonperforming other assets	$119	$ 36

Results of Operations

Results of Operations for the Three Months Ended March 31, 2006

Net income for the first three months of 2006 was $4.690 million, a $757,000, or 19.2%, increase from $3.933 million for the same period in 2005. Basic earnings per share increased $0.04, or 9.5%, to $0.46 per share in the first three months of 2006 from $0.42 per share in the first three months of 2005. Diluted earnings per share increased $0.05, or 12.2%, to $0.46 per share in the first three months of 2006 from $0.41 per share in the first three months of 2005. The purchase of Citizens on April 1, 2005 contributed to the increases in net income and earnings per share during the first three months of 2006 compared to the same period in 2005.

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

Consolidated Average Balance Sheet and Interest Rates
(dollars in thousands)
Three Months Ended March 31,

	2006			
	Average Balance	Interest	Rate	Average Balance
Assets				
Taxable investment securities(1)	$ 436,872	$ 4,106	3.81%	$ 304,567 $
Tax-exempt investment securities(1) (TE) .	32,820	508	6.28%	41,648
Federal funds sold and interest bearing				

deposits(2)	20,024	297	6.02%	29,179	
Loans (3), (4) (TE)	977,086	16,800	6.97%	761,692	
Total interest earning assets and interest income (TE)	$1,466,802	$ 21,711	6.00%	$1,137,086	$
Cash and due from banks	$ 46,121			$ 38,699	
Premises and equipment	23,040			17,079	
Other assets	59,149			25,307	
Total assets	$1,595,112			$1,218,171	
Liabilities and Shareholders' Equity					
Interest bearing demand deposits	$ 72,027	$ 110	0.62%	$ 66,440	$
Savings	488,648	3,216	2.67%	368,260	
Time deposits	466,913	4,092	3.55%	342,642	
Federal funds purchased, repurchase agreements, and notes payable	122,966	1,151	3.80%	103,396	
FHLB advances and other borrowings	58,245	681	4.74%	28,530	
Total interest bearing liabilities and interest expense	$1,208,799	$ 9,250	3.10%	$ 909,268	$
Non-interest bearing demand deposits	$ 149,487			$ 116,182	
Non-interest bearing savings deposits	72,878			64,894	
Other liabilities	19,071			13,188	
Total liabilities	$1,450,235			$1,103,532	
Shareholders' equity	144,877			114,639	
Total liabilities and shareholders' equity	$1,595,112			$1,218,171	
Interest spread (average rate earned minus average rate paid) (TE)			2.90%		
Net interest income (TE)		$ 12,461			$
Net yield on interest earnings assets (TE)			3.45%		

Notes to Consolidated Average Balance Sheet and Interest Rates Tables:

23

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

changes in proportion to the absolute dollar amounts of change in each.

Analysis of Volume and Rate Changes
(in thousands)
Three Months Ended March 31, 2006

	Increase (Decrease) from Previous Year	Due to Volume	Due to Rate
Interest Income			
Taxable investment securities	$ 1,742	$ 1,173	$ 569
Tax-exempt investment securities (TE)	(109)	(136)	27
Federal funds sold and interest bearing deposits	76	(86)	162
Loans (TE)	5,392	3,539	1,853
Total interest income (TE)	$ 7,101	$ 4,490	$ 2,611
Interest Expense			
Interest bearing demand and savings deposits ..	$ 2,191	$ 407	$ 1,784
Time deposits	1,627	1,016	611
Federal funds purchased, repurchase agreements and notes payable	644	111	533
FHLB advances and other borrowings	295	354	(59)
Total interest expense	$ 4,757	$ 1,888	$ 2,869
Net Interest Income (TE)	$ 2,344	$ 2,602	$ (258)

Net interest income on a tax equivalent basis was $2.344 million, or 23.2%, higher for the first three months of 2006 compared to the same period of 2005. Total tax-equivalent interest income was $7.101 million, or 48.6%, higher in 2006 compared to 2005, and interest expense increased $4.757 million, or 105.9%. The increase in tax-equivalent interest income and interest expense was due to both increases in average volume and higher rates.

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

The increase in total interest expense was due to an increase in interest expense from all categories of interest bearing liabilities. The increases in interest expense from interest bearing demand and savings deposits and federal funds purchased, repurchase agreements and notes payable were primarily due to higher rates. The increase in interest expense on time deposits was primarily due to higher volume. The increase in interest expense from FHLB advances and other borrowings was due to higher volume, offset somewhat by lower rates.

The provision for loan losses recorded was $450,000 during the first three months of 2006 compared to $330,000 during the same period in 2005. The

provision during both periods was based on management's analysis of the loan portfolio, as discussed in the provision for loan losses section above.

The following table summarizes selected categories of non-interest income and non-interest expense for the three months ended March 31, 2006 and 2005. The acquisition of Citizens on April 1, 2005, has been accounted for as a purchase. Results of operations of Citizens since the acquisition date have been included in the Company's consolidated financial statements. Effective January 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123(R), Share-Based Payment, using the modified-prospective-transition method. (Refer to Note 4, Stock Option Plans, for additional information). As a result, the Company recognized an additional $157,000 in stock option expense in the first quarter of 2006, with $113,000 being allocated to salaries and benefits expense and $44,000 being allocated to other non-interest expense.

Non-interest Income and Expense
for the Three Months Ended
March 31, 2006 and 2005
(in thousands)

Non-interest Income	03/31/2006	03/31/2005	$ change	% change
Trust and brokerage fees	$ 1,915	$ 1,842	$ 73	4.0%
Remittance processing income	1,765	1,707	58	3.4%
Service charges on deposit accounts (1) ..	685	526	159	30.2%
Securities transactions, net (2)	267	190	77	40.5%
Gain on sales of mortgage loans, net (3)..	126	137	(11)	(8.0%)
Other (4)	761	613	148	24.1%
Total non-interest income	$ 5,519	$ 5,015	$ 504	10.0%

Non-interest Expense	03/31/2006	03/31/2005	$ change	% change
Salaries and employee benefits (5)	$ 5,921	$ 4,947	$ 974	19.7%
Occupancy (6)	792	662	130	19.6%
Equipment	615	606	9	1.5%
Data processing (7)	738	551	187	33.9%
Office supplies	296	298	(2)	(0.7%)
Service charges from correspondent banks (8)..............................	64	110	(46)	(41.8%)
Amortization of core deposit intangibles (9)	218	--	218	--
Other (10)	1,401	1,275	126	9.9%
Total non-interest expense	$ 10,045	$ 8,449	$ 1,596	18.9%

Income tax expense increased $411,000, or 18.7%, during the first three months of 2006 compared to the same period in 2005. The effective tax rate decreased to 35.8% during the first three months of 2006 from 35.9% during the same period in

2005.

Business Segment Information

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

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

The following table quantifies the Company's business segment information for the three-months ended March 31, 2006 and 2005:

As of and for the Three Months Ended:	Banking Services	Remittance Services	Company	Eliminations	Total
March 31, 2006					
Total interest income	$ 21,693	$ 6	$ (160)	$ (11)	$ 21,52
Total interest expense	9,173	--	88	(11)	9,25
Provision for loan losses ...	450	--	--	--	45
Total non-interest income ...	3,775	1,824	238	(318)	5,51
Total non-interest expense ..	8,805	1,156	402	(318)	10,04
Income before income tax	7,040	674	(412)	--	7,30
Income tax expense	2,498	283	(169)	--	2,61
Net income	4,542	391	(243)	--	4,69
Goodwill	20,736	--	--	--	20,73
Total assets	1,567,533	4,043	155,015	(145,222)	1,581,36
Depreciation and amortization	560	66	13	--	63
March 31, 2005					
Total interest income	$ 14,391	$ 4	$ 24	$ (28)	$ 14,39
Total interest expense	4,512	--	9	(28)	4,49
Provision for loan losses ...	330	--	--	--	33
Total non-interest income ...	3,340	1,737	202	(264)	5,01
Total non-interest expense ..	7,285	1,115	313	(264)	8,44
Income before income tax	5,604	626	(96)	--	6,13
Income tax expense	1,980	264	(43)	--	2,20
Net income	3,624	362	(53)	--	3,93
Goodwill	--	--	--	--	-
Total assets	1,212,406	2,388	118,579	(108,735)	1,224,63
Depreciation and amortization	467	114	13	--	59

Recent Regulatory Developments

On February 8, 2006, President Bush signed the Federal Deposit Insurance Reform Act of 2005 ("FDIRA") into law as part of the Deficit Reduction Act of 2005 and on February 15, 2006, President Bush signed into law the technical and conforming amendments designed to implement FDIRA. FDIRA provides for legislative reforms to modernize the federal deposit insurance system.

Among other things, FDIRA: (i) merges the BIF and the SAIF of the FDIC into a new Deposit Insurance Fund (the "DIF"); (ii) allows the FDIC, after March 31, 2010, to increase deposit insurance coverage by an adjustment for inflation and requires the FDIC's Board of Directors, not later than April 1, 2010 and every five years thereafter, to consider whether such an increase is warranted; (iii) increases the deposit insurance limit for certain employee benefit plan deposits from $100,000 to $250,000, subject to adjustments for inflation after March 31, 2010, and provides for pass-through insurance coverage for such deposits; (iv) increases the deposit insurance limit for certain retirement account deposits from $100,000 to $250,000, subject to adjustments for inflation after March 31, 2010; (v) allows the FDIC's Board of Directors to set deposit insurance premium assessments in any amount the Board of Directors deems necessary or appropriate, after taking into account various factors specified in FDIRA; (vi) replaces the fixed designated reserve ratio of 1.25% with a reserve ratio range of 1.15%-1.50%, with the specific reserve ratio to be determined annually by the FDIC by regulation; (vii) permits the FDIC to revise the risk-based assessment system by regulation; (viii) requires the FDIC, at the end of any year in which the reserve ratio of the DIF exceeds 1.5% of estimated insured deposits, to declare a dividend payable to insured depository institutions in an amount equal to 100% of the amount held by the DIF in excess of the amount necessary to maintain the DIF's reserve ratio at 1.5% of estimated insured deposits or to declare a dividend equal to 50% of the amount in excess of the amount necessary to maintain the reserve ratio at 1.35% if the reserve ratio is between 1.35%-1.5% of estimated insured deposits; and (ix) provides a one-time credit based upon the assessment base of the institution on December 31, 1996 to each insured depository institution that was in existence as of December 31, 1996 and paid a deposit insurance assessment prior to that date (or a successor to any such institution).

The merger of the BIF and SAIF took effect March 31, 2006, while the remaining provisions are not effective until the FDIC issues final regulations. FDIRA requires the FDIC to issue final regulations no later than 270 days after enactment: (i) designating a reserve ratio; (ii) implementing increases in deposit insurance coverage; (iii) implementing the dividend requirement; (iv) implementing the one-time assessment credit; and (v) providing for assessments in accordance with FDIRA.

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

This document (including information incorporated by reference) contains, and future oral and written statements of the Company and its management may contain, forward-looking statements, within the meaning of such term in the Private Securities Litigation Reform Act of 1995, with respect to the financial condition, results of operations, plans, objectives, future performance and business of the Company. Forward-looking statements, which may be based upon beliefs, expectations and assumptions of the Company's management and on information currently available to management, are generally identifiable by the use of words such as "believe," "expect," "anticipate," "plan," "intend," "estimate," "may," "will," "would," "could," "should" or other similar

expressions. Additionally, all statements in this document, including forward-looking statements, speak only as of the date they are made, and the Company undertakes no obligation to update any statement in light of new information or future events.

The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. The factors, which could have a material adverse effect on the operations and future prospects of the Company and its subsidiaries are detailed in the "Risk Factors" section included under Item 1A. of Part I of the Company's Form 10-K for 2005. In addition to the risk factors described in that section, there are other factors that may impact any public company, including ours, which could have a material adverse effect on the operations and future prospects of the Company and its subsidiaries. These additional factors include, but are not limited to, the following:

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

These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

See the "Interest Rate Sensitivity" section above.

Item 4. Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of March 31, 2006. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective.

There have been no significant changes in the Company's disclosure controls or its internal controls over financial reporting that occurred during the quarter ended March 31, 2006 that have materially affected, or are reasonably likely to materially affect the disclosure controls or the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

their respective businesses.

Item 1.A. Risk Factors

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

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

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
January 1 - January 31, 2006	--	$ --	--	167,600
February 1 - February 28, 2006	12,000	$ 29.85	12,000	155,600
March 1 - March 31, 2006	7,000	$ 30.75	7,000	148,600
Total	19,000	$ 30.18	19,000	148,600

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None

Item 6. Exhibits

31.1 Certification of Chief Executive Officer Pursuant to Rule 13-a-14(a)/15d-14(a)

31.2	Certification of Chief Financial Officer Pursuant to Rule 13-a-14(a)/15d-14(a)
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

MAIN STREET TRUST, INC.

Date: May 10, 2006

By: /s/ David B. White

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

By: /s/ Van A. Dukeman

Van A. Dukeman, President
And Chief Executive Officer