

SUMMIT FINANCIAL GROUP INC
Form 10-Q/A
September 26, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10 – Q/A
Amendment No. 1

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended **June 30, 2007**.

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)

West Virginia
(State or other jurisdiction of
incorporation or organization)

55-0672148
(IRS Employer
Identification No.)

300 North Main Street
Moorefield, West Virginia **26836**
(Address of principal executive offices) (Zip 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
7,084,980 shares outstanding as of August 6, 2007

EXPLANATORY NOTE

Summit Financial Group, Inc. (“Company” or “Summit”) is filing this amendment to its Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 to amend and restate financial statements and other financial information filed with the Securities and Exchange Commission (“SEC”). This amendment is being filed to correct errors in the originally filed Quarterly Report on Form 10-Q related to the Company’s derivative accounting under Statement of Financial Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (“SFAS No. 133”).

In 2003, we entered into four interest rate swap agreements on certain convertible rate advances from the Federal Home Loan Bank (“FHLB”) that were designated as fair value hedges. The terms of the FHLB convertible rate advances include an option of the FHLB to convert the debt’s fixed interest rate to a variable rate on a quarterly basis. We evaluated these hedging relationships and concluded that the short-cut method of hedge accounting could be applied and the assumption of no ineffectiveness was valid based upon: (a) the criteria in paragraph 68 of SFAS 133 were met, and (b) the conversion options in the FHLB advances were mirrored in the interest rate swaps.

Based on comments received from the Securities and Exchange Commission, we learned that the above interpretation of paragraph 68 is incorrect. The conversion is not specifically listed in paragraph 68, and the presence of that term prohibits the application of the short-cut method of hedge accounting, even if the terms are mirrored between the interest rate swap and the hedged item. Eliminating the application of fair value hedge accounting reverses the fair value adjustments that have been made to the advances and results in all fair value changes for the interest rate swaps being recognized in noninterest income. Additionally, the net cash settlement payments received/paid during each period for these interest rate swaps were reclassified from interest expense on long-term borrowings to noninterest income.

See Note 1, Restatement, in the Notes to Consolidated Financial Statements for a summary of the effects of this restatement.

We have also updated information relative to material subsequent events and legal matters in Note 4 of the Notes to Consolidated Financial Statements and Part II Other Information Item 1. Legal Proceedings to reflect the current status of such items through the filing date of this Form 10-Q/A.

Summit Financial Group, Inc. and Subsidiaries
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	Exhibits	
	Exhibit 11	Statement re: Computation of Earnings per Share – Information contained in Note 6 to the Consolidated Financial Statements on page 12 of this Quarterly Report is incorporated herein by reference.
	Exhibit 31.1	Sarbanes-Oxley Act Section 302 Certification of Chief Executive Officer
	Exhibit 31.2	Sarbanes-Oxley Act Section 302 Certification of Chief Financial Officer
	Exhibit 32.1	Sarbanes-Oxley Act Section 906 Certification of Chief Executive Officer
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Summit Financial Group, Inc. and Subsidiaries
Consolidated Balance Sheets (unaudited)

<i>(dollars in thousands)</i>	June 30, 2007 (unaudited) (Restated)	December 31, 2006 (* (Restated)	June 30, 2006 (unaudited) (Restated)
ASSETS			
Cash and due from banks	\$ 15,198	\$ 12,031	\$ 12,530
Interest bearing deposits with other banks	105	271	123
Federal funds sold	1,717	517	1,590
Securities available for sale	259,526	247,874	238,382
Loans held for sale, net	2,337	-	-
Loans, net	949,175	916,045	866,170
Property held for sale	850	41	283
Premises and equipment, net	22,133	22,446	22,870
Accrued interest receivable	6,812	6,352	5,018
Intangible assets	3,121	3,196	3,272
Other assets	19,118	17,031	18,720
Assets related to discontinued operations	336	9,715	11,632
Total assets	\$ 1,280,428	\$ 1,235,519	\$ 1,180,590

**LIABILITIES AND SHAREHOLDERS'
EQUITY**

Liabilities			
Deposits			
Non interest bearing	\$ 64,373	\$ 62,592	\$ 66,071
Interest bearing	786,016	826,096	695,492
Total deposits	850,389	888,688	761,563
Short-term borrowings	100,901	60,428	164,185
Long-term borrowings	216,758	176,109	150,057
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	19,589	19,589
Other liabilities	10,359	9,844	9,844
Liabilities related to discontinued operations	522	2,109	329
Total liabilities	1,198,518	1,156,767	1,105,567

Commitments and Contingencies

Shareholders' Equity

Common stock and related surplus, \$2.50 par value;
authorized 20,000,000 shares, issued and outstanding

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2007 and December 2006 - 7,084,980 shares;			
issued June 2006 - 7,135,120 shares	18,037	18,021	18,914
Retained earnings	65,479	61,083	59,142
Accumulated other comprehensive income	(1,606)	(352)	(3,033)
Total shareholders' equity	81,910	78,752	75,023
Total liabilities and shareholders' equity	\$ 1,280,428	\$ 1,235,519	\$ 1,180,590

(*) - December 31, 2006 financial information has been extracted from audited consolidated financial statements

See Notes to Consolidated Financial Statements

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

	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2007	2006	2007	2006
<i>(dollars in thousands, except per share amounts)</i>	(Restated)	(Restated)	(Restated)	(Restated)
Interest income				
Interest and fees on loans				
Taxable	\$ 18,958	\$ 16,508	\$ 37,555	\$ 31,648
Tax-exempt	121	102	236	202
Interest and dividends on securities				
Taxable	2,739	2,250	5,318	4,385
Tax-exempt	524	537	1,068	1,049
Interest on interest bearing deposits with other banks	6	4	9	20
Interest on Federal funds sold	21	8	25	16
Total interest income	22,369	19,409	44,211	37,320
Interest expense				
Interest on deposits	8,882	6,408	17,910	11,561
Interest on short-term borrowings	960	1,831	1,918	3,795
Interest on long-term borrowings and subordinated debentures	3,000	2,370	5,653	4,705
Total interest expense	12,842	10,609	25,481	20,061
Net interest income	9,527	8,800	18,730	17,259
Provision for loan losses	390	330	780	655
Net interest income after provision for loan losses	9,137	8,470	17,950	16,604
Other income				
Insurance commissions	209	247	416	477
Service fees	736	726	1,353	1,356
Securities gains (losses)	-	-	-	-
Net cash settlement on interest rate swaps	(179)	(111)	(363)	(182)
Change in fair value of interest rate swap	(273)	(246)	(47)	(719)
Gain (loss) on sale of assets	(33)	-	(32)	(4)
Other	236	133	426	273
Total other income	696	749	1,753	1,201
Other expense				
Salaries and employee benefits	3,238	3,049	6,463	6,104
Net occupancy expense	408	390	826	791
Equipment expense	493	496	940	946
Supplies	197	222	370	388
Professional fees	193	245	367	452
Amortization of intangibles	38	38	76	76
Other	1,151	1,232	2,326	2,276
Total other expense	5,718	5,672	11,368	11,033
Income before income taxes	4,115	3,547	8,335	6,772
Income tax expense	1,135	1,086	2,421	2,015
Income from continuing operations	\$ 2,980	\$ 2,461	\$ 5,914	\$ 4,757

Discontinued Operations				
Exit costs	43	-	123	-
Operating income(loss)	(227)	74	(598)	683
Income from discontinued operations before				
income tax expense(benefit)	(184)	74	(475)	683
Income tax expense(benefit)	(66)	33	(162)	259
Income from discontinued operations				
Net Income	\$ 2,862	\$ 2,502	\$ 5,601	\$ 5,181
Basic earnings from continuing operations per				
common share	\$ 0.42	\$ 0.34	\$ 0.83	\$ 0.67
Basic earnings per common share	\$ 0.40	\$ 0.35	\$ 0.79	\$ 0.73
Diluted earnings from continuing operations per				
common share	\$ 0.42	\$ 0.34	\$ 0.83	\$ 0.66
Diluted earnings per common share	\$ 0.40	\$ 0.35	\$ 0.78	\$ 0.72
Dividends per common share	\$ 0.17	\$ 0.16	\$ 0.17	\$ 0.16

See Notes to Consolidated Financial Statements

Summit Financial Group, Inc. and Subsidiaries
Statement of Shareholders' Equity (unaudited)

Common Stock and	Retained	Accumulated Other Compre-	Total Share- holders'
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