CORTLAND BANCORP INC
Form 10-Q
August 09, 2006

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United States Securities and Exchange Commission
Washington, D. C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended: June 30, 2006

or

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

For the transition from__________ to __________

Commission file number: 0-13814

Cortland Bancorp

(Exact name of registrant as specified in its charter)

Ohio	**34-1451118**
State or other jurisdiction of Incorporation or organization	(I.R.S.Employer Identification No.)
194 West Main Street, Cortland, Ohio	**44410**
(Address of principal executive offices)	(Zip code)

(330) 637-8040

(Registrant s telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

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 o Accelerated filer þ Non-accelerated filer o

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

TITLE OF CLASS	SHARES OUTSTANDING
Common Stock, No Par Value	at August 4, 2006 4,396,834 Shares

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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CORTLAND BANCORP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except share data)

	(Unaudited) JUNE 30, 2006	(Audited) DECEMBER 31, 2005
ASSETS		
Cash and due from banks	$ 9,906	$ 14,587
Federal funds sold	400	4,650
Total cash and cash equivalents	10,306	19,237
Investment securities available for sale (Note 3)	106,967	113,247
Investment securities held to maturity (approximate market value of $124,052 at June 30, 2006 and $121,395 at December 31, 2005 (Note 3)	126,398	121,405
Total loans (Note 4)	198,036	188,202
Less allowance for loan losses (Note 4)	(2,180)	(2,168)
Net loans	195,856	186,034
Premises and equipment	4,136	4,088
Other assets	16,889	15,690
Total assets	$ 460,552	$ 459,701
LIABILITIES		
Noninterest-bearing deposits	$ 59,098	$ 61,782
Interest-bearing deposits	284,382	288,593
Total deposits	343,480	350,375
Federal Home Loan Bank advances and other borrowings	65,458	58,111
Other liabilities	2,955	2,890
Total liabilities	411,893	411,376
SHAREHOLDERS EQUITY		
Common stock $5.00 stated value authorized 20,000,000 shares: issued 4,504,576 shares in both 2006 and 2005 (Note 1)	22,523	22,523
Additional paid-in capital (Note 1)	20,014	20,211
Retained earnings	10,634	10,310
Accumulated other comprehensive income (loss) (Note 1)	(1,545)	(877)
Treasury shares at cost, 120,437 at June 30, 2006 and 155,945 at December 31 , 2005	(2,967)	(3,842)

Total shareholders equity		**48,659**		48,325
Total liabilities and shareholders equity	**$**	**460,552**	$	459,701

See accompanying notes to consolidated financial statements
of Cortland Bancorp and Subsidiaries
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CORTLAND BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(Amounts in thousands, except per share data)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2006	2005	**2006**	2005
INTEREST INCOME				
Interest and fees on loans	**$ 3,452**	$ 3,235	**$ 6,758**	$ 6,341
Interest and dividends on investment securities:				
Taxable interest income	**1,464**	1,019	**2,867**	2,002
Nontaxable interest income	**518**	544	**1,049**	1,086
Dividends	**53**	43	**98**	77
Interest on mortgage-backed securities	**990**	960	**1,986**	1,942
Other interest income	**16**	28	**54**	42
Total interest income	**6,493**	5,829	**12,812**	11,490
INTEREST EXPENSE				
Deposits	**2,027**	1,428	**3,961**	2,847
Borrowed funds	**756**	596	**1,475**	1,182
Total interest expense	**2,783**	2,024	**5,436**	4,029
Net interest income	**3,710**	3,805	**7,376**	7,461
Provision for loan losses	**64**	138	**130**	250
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	**3,646**	3,667	**7,246**	7,211
OTHER INCOME				
Fees for other customer services	**566**	573	**1,068**	1,112
Investment securities gains net	**18**	2	**18**	304
Gain on sale of loans net	**42**	22	**56**	31
Loss on sale of Oreo net	**(28)**		**(28)**	
Other non-interest income	**134**	104	**240**	244
Total other income	**732**	701	**1,354**	1,691
OTHER EXPENSES				
Salaries and employee benefits	**1,691**	1,698	**3,369**	3,354
Net occupancy and equiptment expense	**441**	483	**906**	940
State and local taxes	**139**	138	**278**	276
Bank exam and audit expense	**125**	51	**250**	172

Office supplies	**70**	110	**174**	207
Marketing expense	**53**	64	**91**	113
Other operating expenses	**530**	428	**950**	860
Total other expenses	**3,049**	2,972	**6,018**	5,922
INCOME BEFORE FEDERAL INCOME TAXES	**1,329**	1,396	**2,582**	2,980
Federal income taxes	**253**	264	**331**	590
NET INCOME	**$ 1,076**	$ 1,132	**$ 2,251**	$ 2,390
BASIC EARNINGS PER COMMON SHARE (NOTE 6)	**$ 0.24**	$ 0.26	**$ 0.51**	$ 0.55
DILUTED EARNINGS PER COMMON SHARE (NOTE 6)	**$ 0.24**	$ 0.26	**$ 0.51**	$ 0.55
CASH DIVIDENDS DECLARED PER SHARE	**$ 0.22**	$ 0.22	**$ 0.44**	$ 0.43

See accompanying notes to consolidated financial statements
of Cortland Bancorp and Subsidiaries

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CORTLAND BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY (UNAUDITED)
(Amounts in thousands)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TREASURY STOCK	TOTAL SHARE-HOLDERS EQUITY
SIX MONTHS ENDED JUNE 30, 2005:						
BALANCE AT JANUARY 1, 2005	$21,869	$18,531	$13,131	$ 1,061	$(5,194)	$49,398
Comprehensive income:						
Net income			2,390			2,390
Other comprehensive income, net of tax:						
Unrealized gains or (losses) on available-for-sale securities, net of reclassification adjustment				(593)		(593)
Total comprehensive income						1,797
Common stock transactions:						
Treasury shares reissued		(65)			774	709
Treasury shares purchased					(1)	(1)
Cash dividends declared			(1,845)			(1,845)
BALANCE AT JUNE 30, 2005	$21,869	$18,466	$13,676	$ 468	$(4,421)	$50,058
SIX MONTHS ENDED JUNE 30, 2006:						
BALANCE AT JANUARY 1, 2006	**$22,523**	**$20,211**	**$10,310**	**$ (877)**	**$(3,842)**	**$48,325**

Comprehensive income:						
Net income			**2,251**			**2,251**
Other comprehensive income, net of tax:						
Unrealized gains or (losses) on available-for-sale securities, net of reclassification adjustment				**(668)**		**(668)**
Total comprehensive income						**1,583**
Common stock transactions:						
Treasury shares reissued		**(197)**			**875**	**678**
Cash dividends declared			**(1,927)**			**(1,927)**
BALANCE AT JUNE 30, 2006	**$22,523**	**$20,014**	**$10,634**	**$ (1,545)**	**$(2,967)**	**$48,659**

DISCLOSURE OF RECLASSIFICATION FOR AVAILABLE FOR SALE SECURITY GAINS AND LOSSES:

	JUNE 30,	
	2006	**2005**
Net unrealized holding gains or (losses) on available-for-sale securities arising during the period, net of tax	**$ (656)**	$ (393)
Less: Reclassification adjustment for net gains realized in net income, net of tax	**12**	200
Net unrealized gains (losses) on available- for-sale securities, net of tax	**($668)**	($593)

See accompanying notes to consolidated financial statements
of Cortland Bancorp and Subsidiaries

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CORTLAND BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(Amounts in thousands)

	FOR THE SIX MONTHS ENDED JUNE 30, 2006	2005
NET CASH FLOWS FROM OPERATING ACTIVITIES	**$ 1,919**	$ 1,833
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities held to maturity	**(8,385)**	(17,462)
Purchases of securities available for sale	**(3,285)**	(7,366)
Proceeds from sales of securities available for sale	**1,006**	1,479
Proceeds from call, maturity and principal payments on securities	**10,694**	33,766
Net increase in loans made to customers	**(9,925)**	(2,039)
Proceeds from disposition of other real estate	**135**	
Purchase of premises and equipment	**(293)**	(260)
Net cash flows from investing activities	**(10,053)**	8,118
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease in deposit accounts	**(6,895)**	(7,582)
Net increase in borrowings	**7,347**	637
Dividends paid	**(1,927)**	(1,845)
Purchases of treasury stock		(1)
Treasury shares reissued	**678**	709
Net cash flows from financing activities	**(797)**	(8,082)
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(8,931)**	1,869
CASH AND CASH EQUIVALENTS		
Beginning of period	**19,237**	12,897
End of period	**$ 10,306**	$ 14,766
SUPPLEMENTAL DISCLOSURES		
Interest paid	**$ 5,384**	$ 4,136
Income taxes paid	**$ 650**	$ 750

See accompanying notes to consolidated financial statements
of Cortland Bancorp and Subsidiaries

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Dollars in thousands)

1.) Basis of Presentation:

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S.GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring items) considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. These interim unaudited consolidated financial statements should be read in conjunction with our annual audited financial statements as of December 31, 2005, included in our Form 10-K for the year ended December 31, 2005, filed with the United States Securities and Exchange Commission. The accompanying consolidated balance sheet at December 31, 2005, has been derived from the audited consolidated balance sheet but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

2.) Reclassifications:

Certain items contained in the 2005 financial statements have been reclassified to conform to the presentation for 2006. Such reclassifications had no effect on the net results of operations.

3.) Investment Securities:

Securities classified as held to maturity are those that management has the positive intent and ability to hold to maturity. Securities held to maturity are stated at cost, adjusted for amortization of premiums and accretion of discounts, with such amortization or accretion included in interest income.

Securities classified as available for sale are those that could be sold for liquidity, investment management, or similar reasons even though management has no present intentions to do so. Securities available for sale are carried at fair value using the specific identification method. Changes in the unrealized gains and losses on available for sale securities are recorded net of tax effect as a component of comprehensive income.

Trading securities are principally held with the intention of selling in the near term. Trading securities are carried at fair value with changes in fair value reported in the Consolidated Statements of Income.

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CORTLAND BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Dollars in thousands)

Realized gains or losses on dispositions are based on net proceeds and the adjusted carrying amount of securities sold, using the specific identification method. The table below sets forth the proceeds, gains and losses realized on securities sold or called for the period ended:

	THREE MONTHS June 30,		SIX MONTHS June 30,	
	2006	2005	2006	2005
Proceeds on securities sold	$1,006	$	$1,006	$1,478
Gross realized gains	6		6	287
Gross realized losses				
Proceeds on securities called	$ 480	$3,050	$ 480	$8,050
Gross realized gains	12	2	12	17
Gross realized losses				

Securities available for sale, carried at fair value, totaled $106,967 at June 30, 2006 and $113,247 at December 31, 2005 representing 45.8% and 48.3%, respectively, of all investment securities. These levels provide an adequate level of liquidity in management s opinion.

Investment securities with a carrying value of approximately $61,808 at June 30, 2006 and $64,082 at December 31, 2005 were pledged to secure deposits and for other purposes.

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CORTLAND BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Dollars in thousands)

The amortized cost and estimated market value of debt securities at June 30, 2006, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Investment securities available for sale	AMORTIZED COST	ESTIMATED FAIR VALUE
Due in one year or less	$ 2,096	$ 2,103
Due after one year through five years	9,484	9,247
Due after five years through ten years	3,717	3,275
Due after ten years	33,951	34,142
	49,248	48,767
Mortgage-backed securities	56,576	54,716
	$ 105,824	$ 103,483

Investment securities held to maturity	AMORTIZED COST	ESTIMATED FAIR VALUE
Due in one year or less	$ 452	$ 455
Due after one year through five years	3,217	3,114
Due after five years through ten years	35,883	35,029
Due after ten years	63,802	63,142
	103,354	101,740
Mortgage-backed securities	23,044	22,312
	$ 126,398	$ 124,052

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CORTLAND BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Dollars in thousands)

The amortized cost and estimated fair value of investment securities available for sale and investment securities held to maturity as of June 30, 2006, are as follows:

Investment securities available for sale	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
U.S. Government agencies and corporations	$ 13,963	$ 3	$ 314	$ 13,652
Obligations of states and political subdivisions	9,974	291	16	10,249
Mortgage-backed and related securities	56,576	141	2,001	54,716
Corporate securities	25,311	37	482	24,866
Total debt securities	105,824	472	2,813	103,483
Other securities	3,484			3,484
Total available for sale	$ 109,308	$ 472	$ 2,813	$ 106,967

Investment securities held to maturity	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
U.S. Treasury Securities	$ 146	$	$ 4	$ 142
U.S. Government agencies and corporations	70,867		2,397	68,470
Obligations of states and political subdivisions	32,341	835	48	33,128
Mortgage-backed and related securities	23,044		732	22,312
Total held to Maturity	$ 126,398	$ 835	$ 3,181	$ 124,052

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CORTLAND BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Dollars in thousands)

The following provides a summary of the amortized cost and estimated fair value of investment securities available for sale and investment securities held to maturity as of December 31, 2005:

Investment securities available for sale	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
U.S. Government agencies and corporations	$ 14,010	$ 34	$ 196	$ 13,848
Obligations of states and political subdivisions	11,372	506	6	11,872
Mortgage-backed and related securities	61,494	314	1,174	60,634
Corporate securities	24,307	50	857	23,500
Total debt securities	111,183	904	2,233	109,854
Other securities	3,393			3,393
Total available for sale	$ 114,576	$ 904	$ 2,233	$ 113,247

Investment securities held to maturity	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
U.S. Treasury Securities	$ 148	$ 2	$	$ 150
U.S. Government agencies and corporations	66,057	5	943	65,119
Obligations of states and political subdivisions	32,842	1,307	23	34,126
Mortgage-backed and related securities	22,358	14	372	22,000
Total held to maturity	$ 121,405	$ 1,328	$ 1,338	$ 121,395

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CORTLAND BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Dollars in thousands)

4.) Concentration of Credit Risk and Off Balance Sheet Risk:

The Company currently does not enter into derivative financial instruments including futures, forwards, interest rate risk swaps, option contracts, or other financial instruments with similar characteristics. The Company also does not participate in any partnerships or other special purpose entities that might give rise to off-balance sheet liabilities.

The Company, through its subsidiary bank, 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, standby letters of credit, and financial guarantees. Such instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized on the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

In the event of nonperformance by the other party, the Company s exposure to credit loss on these financial instruments is represented by the contract or notional amount of the instrument. The Company uses the same credit policies in making commitments and conditional obligations as it does for instruments recorded on the balance sheet. The amount and nature of collateral obtained, if any, is based on management s credit evaluation.

	CONTRACT OR NOTIONAL AMOUNT	
	June 30, 2006	December 31, 2005
Financial instruments whose contract amount represents credit risk:		
Commitments to extend credit:		
Fixed rate	$ 8,456	$ 2,101
Variable	36,286	39,180
Standby letters of credit	840	1,195

Standby letters of credit are conditional commitments issued by the Company s subsidiary bank to guarantee the performance of a customer to a third party. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Generally these financial arrangements have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of these commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

The Company s subsidiary bank also offers limited overdraft protection as a non-contractual courtesy which is available to individually/jointly owned accounts in good standing for personal or household use. The Company reserves the right to discontinue this service without prior notice. The available amount of overdraft protection on depositors accounts not included in the table above at June 30, 2006 totaled $10,001 and $6,191 at December 31, 2005. The total average daily balance of overdrafts used in 2006 was $132 and $126 in 2005, or approximately 1.3% of the total aggregate overdraft protection available to depositors at June 30, 2006 and 2.0% at December 31, 2005.

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CORTLAND BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Dollars in thousands)

The Company, through its subsidiary bank, grants residential, consumer and commercial loans, and also offers a variety of saving plans to customers located primarily in Northeast Ohio and Western Pennsylvania. The following represents the composition of the loan portfolio:

	June 30, 2006	December 31, 2005
1-4 family residential mortgages	31.6%	31.8%
Commercial mortgages	50.0%	48.3%
Consumer loans	3.8%	3.6%
Commercial loans	9.0%	10.5%
Home equity loans	5.6%	5.8%

There are $171 in mortgage loans held for sale included in 1-4 family residential mortgages as of June 30, 2006, and none at December 31, 2005. These loans are carried, in the aggregate, at the lower of cost or estimated market value based on secondary market prices.

The following table sets forth the aggregate balance of underperforming loans for each of the following categories at June 30, 2006 and December 31, 2005:

	June 30, 2006	December 31, 2005
Loans accounted for on a Non-accrual basis	$3,977	$ 3,746
Loans contractually past due 90 days or more as to interest or principal payments (not included in non-accrual loans above)	NONE	NONE
Loans considered troubled debt restructurings (not included in non-accrual loans or loans contractually past due above)	NONE	NONE

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CORTLAND BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Dollars in thousands)

The following shows the amounts of contractual interest income and interest income actually reflected in income on loans accounted for on a non-accrual basis and loans considered troubled debt restructuring for the six months ended June 30, 2006 and 2005.

	June 30, 2006	June 30, 2005
Gross interest income that would have been recorded if the loans had been current in accordance with their original terms	$ 228	$ 155
Interest income actually included in income on the loan	13	11

A loan is placed on a non-accrual basis whenever sufficient information is received to question the collectibility of the loan or any time legal proceedings are initiated involving a loan. When a loan is placed on non-accrual status, any interest that has been accrued and not collected on the loan is charged against earnings. Cash payments received while a loan is classified as non-accrual are recorded as a reduction to principal or reported as interest income according to management s judgment as to collectibility of principal.

A loan is returned to accrual status when either, all of the principal and interest amounts contractually due are brought current and future payments are, in management s opinion, collectible, or when it otherwise becomes well secured and in the process of collection. When a loan is charged-off, any interest accrued but not collected on the loan is charged against earnings.

Impaired loans are generally included in non-accrual loans. Management does not individually evaluate certain smaller balance loans for impairment as such loans are evaluated on an aggregate basis. These loans include 1 4 family, consumer and home equity loans. Impaired loans were evaluated using the fair value of collateral as the measurement method. At June 30, 2006 the recorded investment in impaired loans was $1,532 while the related portion of the allowance for loan losses was $672. At December 31, 2005, there were $1,857 in loans considered impaired while the allocated portion of the allowance for loan losses for such loans was $714.

Loans in the amount of $9,106 as of June 30, 2006, and $5,304 as of December 31, 2005, were not included in any of the above categories and were not currently considered impaired, but which can be considered to be potential problem loans.

Any loans classified for regulatory purposes as loss, doubtful, substandard, or special mention that have not been disclosed above do not (i) represent or result from trends or uncertainties which management reasonably expects will materially impact future operating results, liquidity, or capital resources, or (ii) represent material credits about which management is aware of any information which causes management to have serious doubts as to the ability of such borrowers to comply with the loan repayment terms.

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CORTLAND BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Dollars in thousands)

The following is an analysis of the allowance for loan losses for the periods ended June 30, 2006 and June 30, 2005:

	THREE MONTHS		SIX MONTHS	
	2006	2005	2006	2005
Balance at beginning of period	$ 2,202	$ 2,734	$ 2,168	$ 2,629
Loan charge-offs:				
1-4 family residential mortgages			5	6
Commercial mortgages		6	20	6
Consumer loans and other loans	61	36	99	71
Commercial loans	37	3	37	8
Home equity loans				
	98	45	161	91
Recoveries on previous loan losses:				
1 - 4 family residential mortgages				
Commercial mortgages				
Consumer loans and other loans	12	24	39	62
Commercial loans		11	4	12
Home equity loans				
	12	35	43	74
Net charge-offs	(86)	(10)	(118)	(17)
Provision charged to operations	64	138	130	250
Balance at end of period	$ 2,180	$ 2,862	$ 2,180	$ 2,862
Ratio of annualized net charge-offs to average loans outstanding	0.18%	0.01%	0.12%	0.02%

For each of the periods presented above, the provision for loan losses charged to operations is based on management s judgment after taking into consideration all known factors connected with the collectibility of the existing portfolio. Management evaluates the portfolio in light of economic conditions, changes in the nature and volume of the portfolio, industry standards and other relevant factors. Specific factors considered by management in determining the amounts charged to operations include previous loan loss experience; the status of past due interest and principal payments; the quality of financial information supplied by customers; the cash flow coverage and trends evidenced by financial information supplied by customers; the nature and estimated value of any collateral supporting specific loan credits; risk classifications determined by the Company s loan review systems or as the result of the regulatory examination process; and general economic conditions in the lending area of the Company s bank subsidiary. Key risk factors and assumptions are dynamically updated to reflect actual experience and changing circumstances.

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CORTLAND BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(Dollars in thousands)

The Company maintains an allowance for losses on unfunded commercial lending commitments to provide for the risk of loss inherent in these arrangements. The allowance is computed using a methodology similar to that used to determine the allowance for loan losses. This allowance is reported as a liability on the balance sheet within accrued expenses and other liabilities, while the corresponding provision for these losses is recorded as a component of other expense.

Certain asset-specific loans are evaluated individually for impairment, based on management s best estimate of discounted cash repayments and the anticipated proceeds from liquidating collateral. The actual timing and amount of repayments and the ultimate realizable value of the collateral may differ from management s estimates.

The expected loss for certain other commercial credits utilizes internal risk ratings. These loss estimates are sensitive to changes in the customer s risk profile, the realizable value of collateral, other risk factors and the related loss experience of other credits of similar risk. Consumer credits generally employ statistical loss factors, adjusted for other risk indicators, applied to pools of similar loans stratified by asset type. These loss estimates are sensitive to changes in delinquency status and shifts in the aggregate risk profile.

5.) Legal Proceedings:

The Bank is involved in legal actions arising in the ordinary course of business. In the opinion of management, the outcomes from these matters, either individually or in the aggregate, are not expected to have any material effect on the Company.

6.) Earnings Per Share and Capital Transactions:

The following table sets forth the computation of basic earnings per common share and diluted earnings per common share. Basic earnings per share is computed by dividing net income by the weighted average number of shares outstanding during the applicable period.

	THREE MONTHS ENDED June 30,		SIX MONTHS ENDED June 30,	
	2006	2005	2006	2005
Net Income	$ 1,076	$ 1,132	$ 2,251	$ 2,390
Weighted average common shares outstanding*	4,384,005	4,325,156	4,377,573	4,319,248
Basic earnings per share*	$ 0.24	$ 0.26	$ 0.51	$ 0.55
Diluted earnings per share*	$ 0.24	$ 0.26	$ 0.51	$ 0.55
Dividends declared per share*	$ 0.22	$ 0.22	$ 0.44	$ 0.43

* Average shares outstanding and the resulting per share amounts have been restated to give retroactive effect to the 3% stock dividend of January 1, 2006.

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CORTLAND BANCORP AND SUBSIDIARIES
CONSOLIDATED AVERAGE BALANCE SHEETS,
YIELDS AND RATES (UNAUDITED)
(Fully taxable equvalent basis in thousands of dollars)

				YEAR TO DATE AS OF					
	June 30, 2006			DECEMBER 31, 2005			June 30,2005		
	Average Balance (1)	Interest	Average Rate	Average Balance (1)	Interest	Average Rate	Average Balance (1)	Interest	Average Rate
ASSETS									
Federal funds sold and other money market funds	$ 2,427	$ 54	4.5%	$ 3,619	$ 119	3.3%	$ 3,116	$ 42	2.8%
Investment securities (1) (2)	237,893	6,487	5.5%	221,844	11,547	5.2%	218,600	5,623	5.1%
Loans (2) (3)	190,685	6,807	7.2%	192,873	13,040	6.8%	193,633	6,391	6.6%
Total interest-earning assets	431,005	$ 13,348	6.2%	418,336	$ 24,706	5.9%	415,349	$ 12,056	5.8%
Cash and due from banks	8,975			9,417			9,224		
Bank premises and equiptment	4,130			4,316			4,412		
Other assets	12,105			12,418			12,389		
Total non-interest-earning assets	25,210			26,151			26,025		
Total Assets	$ 456,215			$ 444,487			$ 441,374		
LIABILITIES AND SHAREHOLDERS EQUITY									
Interest-bearing demand deposits	$ 47,198	$ 345	1.5%	$ 49,355	$ 389	0.8%	$ 48,764	$ 145	0.6%
Savings	84,693	431	1.0%	89,107	647	0.7%	90,549	266	0.6%
Time	156,921	3,185	4.1%	144,793	5,123	3.5%	144,000	2,436	3.4%
Total interest-bearing deposits	288,812	3,961	2.8%	283,255	6,159	2.2%	283,313	2,847	2.0%
Federal funds purchased	742	19	5.2%	428	15	3.5%	342	5	2.6%
Other borrowings	57,500	1,456	5.1%	49,504	2,491	5.0%	47,030	1,177	5.0%
Total interest-bearing liabilities	347,054	$ 5,436	3.2%	333,187	$ 8,665	2.6%	330,685	$ 4,029	2.5%
Demand deposits	57,225			58,320			57,607		
Other liabilities	3,056			3,315			3,247		
Shareholders equity	48,880			49,665			49,835		

Total liabilities and Shareholders equity	**$ 456,215**	$ 444,487	$ 441,374
Net interest income	**$ 7,912**	$ 16,041	$ 8,027
Net interest rate spread (4)	**3.1%**	3.3%	3.3%
Net interest margin (5)	**3.7%**	3.8%	3.9%
Ratio of interest-earning assets to interest-bearing liabilities	**1.24**	1.26	1.26

(1) Includes both taxable and tax exempt securities

(2) Tax exempt interest is shown on a tax equivalent basis for proper comparison using a statutory federal income tax rate of 34%. The tax equivalent income adjustment for loans and investment is $49 and $487 for 2006, $99 and $1,021 for December 2005, and $50 and $516 for June 2005, respectively.

(3) Includes loan origination and commitment fees.

(4) Interest rate spread represents

the difference between the yield on earning assets and the rate paid on interest bearing liabilities. (5) Interest margin is calculated by dividing the diffence between total interest earned and total interest expensed by total interest-earning assets.

See accompanying notes to consolidated financial statements of Cortland Bancorp and Subsidiaries

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CORTLAND BANCORP AND SUBSIDIARIES
CONSOLIDATED AVERAGE BALANCE SHEETS,
YIELDS AND RATES (UNAUDITED)
(Fully taxable equvalent basis in thousands of dollars)

	QUARTER TO DATE AS OF								
	June 30, 2006			March 31, 2006			June 30, 2005		
	Average Balance (1)	**Interest**	**Average Rate**	Average Balance (1)	Interest	Average Rate	Average Balance (1)	Interest	Average Rate
ASSETS									
Federal funds sold and other money market funds	**$ 1,366**	**$ 16**	**4.9%**	$ 3,500	$ 38	4.4%	$ 3,901	$ 28	2.9%
Investment securities (1) (2)	**237,486**	**3,265**	**5.5%**	238,304	3,221	5.4%	217,100	2,825	5.2%
Loans (2) (3)	**193,071**	**3,474**	**7.2%**	188,272	3,332	7.2%	194,350	3,259	6.7%
Total interest-earning assets	**431,923**	**$ 6,755**	**6.3%**	430,076	$ 6,591	6.2%	415,351	$ 6,112	5.9%
Cash and due from banks	**8,717**			9,236			9,462		
Bank premises and equiptment	**4,143**			4,116			4,391		
Other assets	**12,161**			11,931			12,060		
Total non-interest-earning assets	**25,021**			25,283			25,913		
Total Assets	**$ 456,944**			$ 455,359			$ 441,264		
LIABILITIES AND SHAREHOLDERS EQUITY									
Interest-bearing demand deposits	**$ 48,028**	**$ 183**	**1.5%**	$ 46,359	$ 162	1.4%	$ 50,762	$ 79	0.6%
Savings	**84,130**	**216**	**1.0%**	85,260	215	1.0%	90,573	140	0.6%
Time	**156,426**	**1,628**	**4.2%**	157,423	1,557	4.0%	141,367	1,209	3.4%
Total interest-bearing deposits	**288,584**	**2,027**	**2.8%**	289,042	1,934	2.7%	282,702	1,428	2.0%
Federal funds purchased	**1,396**	**19**	**5.2%**	81	1	4.8%	80	1	3.2%
Other borrowings	**57,455**	**737**	**5.1%**	57,546	718	5.1%	47,219	595	5.1%
Total interest-bearing liabilities	**347,435**	**$ 2,783**	**3.2%**	346,669	$ 2,653	3.1%	330,001	$ 2,024	2.5%
Demand deposits	**57,600**			56,845			58,558		
Other liabilities	**3,039**			3,075			2,938		

Shareholders equity	**48,870**	48,770	49,767
Total liabilities and Shareholders equity	**$ 456,944**	$ 455,359	$ 441,264
Net interest income	**$ 3,972**	$ 3,938	$ 4,088
Net interest rate spread (4)	**3.0%**	3.1%	3.4%
Net interest margin (5)	**3.7%**	3.7%	3.9%
Ratio of interest-earning assets to interest-bearing liabilities	**1.24**	1.24	1.26

(1) Includes both taxable and tax exempt securities

(2) Tax exempt interest is shown on a tax equivalent basis for proper comparison using a statutory federal income tax rate of 34%. The tax equivalent income adjustment for loans and investment is $22 and $240 for June 30, 2006, $26 and $246 for March 2006, and $24 and $259 for June 2005, respectively.

(3) Includes loan origination and commitment fees.

(4) Interest rate spread represents the difference between the yield on earning assets and the rate paid on interest bearing liabilities. (5) Interest margin is calculated by dividing the diffence between total interest earned and total interest expensed by total interest -earning assets.

See accompanying notes to consolidated financial statements
of Cortland Bancorp and Subsidiaries

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CORTLAND BANCORP AND SUBSIDIARIES
ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
SELECTED FINANCIAL DATA FOR QUARTER ENDED
(In thousands of dollars, except for ratios and per share amounts)

	June 30, 2006	March 31, 2006	December 31, 2005	September 30, 2005	June 30, 2005
SUMMARY OF OPERATIONS					
Total interest income	**$ 6,493**	$ 6,319	$ 6,212	$ 5,884	$ 5,829
Total interest expense	**2,783**	2,653	2,439	2,197	2,024
NET INTEREST INCOME (NII)	**3,710**	3,666	3,773	3,687	3,805
Provision for loan losses	**64**	66	135	160	138
NII after loss provision	**3,646**	3,600	3,638	3,527	3,667
Security gains (losses)	**18**			4	2
Gain on sale of loans	**42**	14	30	28	22
Total other income	**732**	622	692	732	701
Total other expense	**3,049**	2,969	2,990	3,288	2,972
Income before tax	**1,329**	1,253	1,340	971	1,396
Net income	**$ 1,076**	$ 1,175	$ 1,093	$ 851	$ 1,132
Core earnings (1)	**$ 1,057**	$ 1,021	$ 1,075	$ 990	$ 1,116
Net income (Rolling 4 Quarters) (2)	**$ 4,195**	$ 4,251	$ 4,334	$ 4,546	$ 5,010
Core earnings (Rolling 4 Quarters)	**$ 4,143**	$ 4,202	$ 4,234	$ 4,206	$ 4,280
PER COMMON SHARE DATA (3)					
Net income, both basic and diluted	**$ 0.24**	$ 0.27	$ 0.25	$ 0.20	$ 0.26
Net income, both basic and diluted (Rolling 4 Quarters)	**0.96**	0.98	1.00	1.05	1.16
Core income, both basic and diluted	**0.24**	0.23	0.25	0.23	0.26
Core income, both basic and diluted (Rolling 4 Quarters)	**0.95**	0.97	0.98	0.97	0.99
Cash dividends declared	**0.22**	0.22	0.44	0.21	0.21
Cash dividends declared (Rolling 4 Quarters)	**1.09**	1.08	1.07	1.07	1.06

Book value	**11.10**	11.11	11.11	11.76	11.92
BALANCE SHEET DATA					
Assets	**$ 460,552**	$ 456,658	$ 459,701	$ 449,579	$ 439,287
Investments	**233,365**	236,551	234,652	222,065	214,336
Net loans	**195,856**	187,529	186,034	190,194	191,003
Deposits	**343,480**	346,888	350,375	343,083	337,337
Borrowings	**65,458**	58,228	58,111	54,115	48,526
Shareholders equity	**48,659**	48,565	48,325	49,513	50,058
AVERAGE BALANCES					
Assets	**$ 456,944**	$ 455,359	$ 453,622	$ 441,614	$ 441,264
Investments	**237,486**	238,304	232,498	217,572	217,100
Net loans	**190,897**	186,083	188,426	191,060	191,584
Deposits	**346,184**	345,887	345,722	338,714	341,260
Borrowings	**58,851**	57,627	55,286	49,617	47,299
Shareholders equity	**48,870**	48,770	49,039	50,191	49,767
ASSET QUALITY RATIOS					
Underperforming assets as a percentage of:					
Total assets	**0.88%**	0.78%	0.83%	0.81%	0.93%
Equity plus allowance for loan losses	**7.95**	6.98	7.58	7.04	7.69
Tier I capital	**8.07**	7.12	7.81	7.35	8.24
FINANCIAL RATIOS					
Return on average equity	**8.81%**	9.64%	8.92%	6.78%	9.10%
Return on average equity (Rolling 4 Quarters)	**8.52**	8.60	8.72	9.08	10.05
Return on average assets	**0.94**	1.03	0.96	0.77	1.03
Return on average assets (Rolling 4 Quarters)	**0.93**	0.95	0.97	1.03	1.13
Effective tax rate (4)	**19.04**	17.80	18.43	12.36	18.91
Net interest margin ratio	**3.68**	3.70	3.79	3.83	3.93

(1) Core earnings are earnings before gains on loans sold, investment securities sold or called, trading security gains, other real estate losses and certain other non recurring items.

(2)

Rolling 4 quarters is calculated by using the current quarter plus the preceding 3 quarters.

(3) Basic and diluted earnings per share are based on weighted average shares outstanding adjusted retroactively for stock dividends. Cash dividends per common share are based on actual cash dividends declared, adjusted retroactively for the stock dividends. Book value per common share is based on shares outstanding at each period , adjusted retroactively for the stock dividends.

(4) The effective tax rate for March 2006 is calculated before the $145 adjustment to the tax accrual estimate made in the first quarter of 2006.

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CORTLAND BANCORP AND SUBSIDIARIES

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollars in thousands)

Financial Review

The following is management s discussion and analysis of the financial condition and results of operations of Cortland Bancorp (the Company). The discussion should be read in conjunction with the Consolidated Financial Statements and related notes included elsewhere in this report.

Note Regarding Forward-looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In addition to historical information, certain information included in this Quarterly Report on Form 10-Q and other material filed or to be filed by the Company with the Securities and Exchange Commission (as well as information included in oral statements or other written statements made or to be made by the Company) may contain herein, the forward-looking statements that involve risks and uncertainties. The words believes, expects, may, will, should, projects, contemplates, anticipates, forecasts, intends, or similar terminology identify forward-looking statement These statements reflect management s beliefs and assumptions, and are based on information currently available to management. Economic circumstances, the Company s operations and actual results could differ significantly from those discussed in any forward-looking statements. Some of the factors that could cause or contribute to such differences are changes in the economy and interest rates either nationally or in the Company s market area; changes in customer preferences and consumer behavior; increased competitive pressures or changes in either the nature or composition of competitors; changes in the legal and regulatory environment; changes in factors influencing liquidity such as expectations regarding the rate of inflation or deflation, currency exchange rates, and other factors influencing market volatility; unforeseen risks associated with other global economic, political and financial factors. While actual results may differ significantly from the results discussed in the forward-looking statements, the Company undertakes no obligation to update publicly any forward-looking statement for any reason, even if new information becomes available.

Certain Non GAAP Measures

Certain financial information has been determined by methods other than Generally Accepted Accounting Principles (GAAP). Specifically, certain financial measures are based on core earnings rather than net income. Core earnings exclude income, expense, gains and losses that either are not reflective of ongoing operations or that are not expected to reoccur with any regularity or reoccur with a high degree of uncertainty and volatility. Such information may be useful to both investors and management, and can aid them in understanding the Company s current performance trends and financial condition. Core earnings are a supplemental tool for analysis and not a substitute for GAAP net income. Reconciliation from GAAP net income to the non GAAP measure of core earnings is shown as part of management s discussion and analysis of quarterly and year-to-date financial results of operations.

Critical Accounting Policies and Estimates

The Company s consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States and follow general practices within the industries in which it operates. The most significant accounting policies followed by the Company are presented in Notes to Consolidated Financial Statements Summary of Significant Accounting Policies in the 2005 annual report on Form 10-K. Application of these principles requires management to make estimates, assumptions and judgments that affect the amounts reported in the financial statements and accompanying notes. Some of these policies and related methodologies are more critical than others. There has been no material change in critical accounting estimates since those presented in the 2005 annual report on Form 10-K.

CORTLAND BANCORP AND SUBSIDIARIES

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

(Dollars in thousands)

The Company has identified its policy on the allowance for loan losses as being critical because it requires management to make particularly difficult, subjective and/or complex judgments about matters that are inherently uncertain, and because of the likelihood that materially different amounts would be reported under different conditions or by using different assumptions. In determining the appropriate amount to reserve for potential credit losses, the Company s banking subsidiary also considers unfunded commitments, such as loan commitments, letter of credit and unused lines of credit. In 2005 the Company refined its approach to reserving for such unfunded credit commitments, incorporating into its reserve calculations the same off-balance sheet assumptions prescribed for determining risk-based capital.

Liquidity

The central role of the Company s liquidity management is to (1) ensure sufficient liquid funds to meet the normal transaction requirements of its customers, (2) take advantage of market opportunities requiring flexibility and speed, and (3) provide a cushion against unforeseen liquidity needs.

Principal sources of liquidity for the Company include assets considered relatively liquid, such as interest-bearing deposits in other banks, federal funds sold, cash and due from banks, as well as cash flows from maturities and repayments of loans, investment securities and mortgage-backed securities.

Along with its liquid assets, the Company has other sources of liquidity available to it, which help to ensure that adequate funds are available as needed. These other sources include, but are not limited to, the ability to obtain deposits through the adjustment of interest rates, the purchasing of federal funds, borrowings from the Federal Home Loan Bank of Cincinnati and access to the Federal Reserve Discount Window.

Cash and cash equivalents decreased from June 30, 2005 and from levels at year-end. The average balance, however, remained much more consistent with an average balance of $11,402 at June 30, 2006, $13,036 at December 31, 2005 and $12,340 at June 30, 2005. Operating activities provided cash of $1,919 and $1,833 during the six months ended June 30, 2006 and 2005, respectively. Key differences stem mainly from: 1) a decrease in net income of $139 compared to June 30, 2005; 2) loans held for sale increased by $171 at June 30, 2006 as compared to an increase of $92 at June 30, 2005. 3) gains on the sale of investments was $304 at June 30, 2005 where there was only $18 at June 30, 2006; 4) amortization on securities was $263 in 2006 compared to $495 in 2005; 5) provision for loan loss was $130 at June 30, 2006 compared to $250 at June 30, 2005; 6) a liability for Securities to Settle totaled $1,270 at December 31, 2004, while there was no liability at June 30, 2006, December 31, 2005 and June 30, 2005; and 7) a participation payable was recorded at June 30, 2005 at $785. Refer to the Consolidated Statements of Cash Flows for a summary of the sources and uses of cash for June 30, 2006 and 2005, and the following table which details the cash flows from operating activities.

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CORTLAND BANCORP AND SUBSIDIARIES
ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)
(Dollars in thousands)

	For the Six Months Ended June 30, 2006	2005
Net Income	$ 2,251	$ 2,390
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation, amortization and accretion	505	804
Provision for loan loss	130	250
Investment securities gains	(18)	(304)
Other real estate losses	28	
Impact of loans held for sale	(171)	(92)
Changes in:		
Securities to settle and securities sold to settle		(1,270)
Loan participation payable		785
Other assets and liabilities	(806)	(730)
Net cash flows from operating activities	$ 1,919	$ 1,833

Capital Resources

The capital management function is a continuous process which consists of providing capital for both the current financial position and the anticipated future growth of the Company. Central to this process is internal equity generation, particularly through earnings retention. Internal capital generation is measured as the annualized rate of return on equity, exclusive of any appreciation or depreciation relating to available for sale securities, multiplied by the percentage of earnings retained. Internally generated capital retained by the Company measured 1.3% for the six months ended June 30, 2006 and 2.2% for the six months ended June 30, 2005. Overall capital (a figure which reflects earnings, dividends paid, common stock issued, treasury shares purchased, treasury shares reissued and the net change in the estimated fair value of available for sale securities) increased at an annual rate of 1.4%. Capital ratios remained well in excess of regulatory minimums.

Risk-based standards for measuring capital adequacy require banks and bank holding companies to maintain capital based on risk-adjusted assets. Categories of assets with potentially higher credit risk require more capital than assets with lower risk. In addition, banks and bank holding companies are required to maintain capital to support, on a risk-adjusted basis, certain off-balance sheet activities such as standby letters of credit and interest rate swaps.

These standards also classify capital into two tiers, referred to as Tier 1 and Tier 2. The Company s Tier 1 capital consists of common shareholders equity (excluding any gain or loss on available for sale debt securities) less intangible assets and the net unrealized loss on equity securities with readily determinable fair values. Tier 2 capital is the allowance for loan and lease losses reduced for certain regulatory limitations.

Risk based capital standards require a minimum ratio of 8% of qualifying total capital to risk-adjusted total assets with at least 4% constituting Tier 1 capital. Capital qualifying as Tier 2 capital is limited to 100% of Tier 1 capital. All banks and bank holding companies are also required to maintain a minimum leverage capital ratio (Tier 1 capital to total average assets) in the range of 3% to 4%, subject to regulatory guidelines.

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CORTLAND BANCORP AND SUBSIDIARIES
ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)
(Dollars in thousands)

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) required banking regulatory agencies to revise risk-based capital standards to ensure that they adequately account for the following additional risks: interest rate, concentration of credit, and non traditional activities. Accordingly, regulators will subjectively consider an institution s exposure to declines in the economic value of its capital due to changes in interest rates in evaluating capital adequacy. The table below illustrates the Company s risk weighted capital ratios at June 30, 2006 and December 31, 2005.

	June 30, 2006	December 31, 2005
Tier 1 Capital	$ 50,051	$ 49,031
Tier 2 Capital	2,200	2,189
TOTAL QUALIFYING CAPITAL	$ 52,251	$ 51,220
Risk Adjusted Total Assets (*)	$ 251,656	$ 242,106
Tier 1 Risk-Based Capital Ratio	19.89%	20.25%
Total Risk-Based Capital Ratio	20.76%	21.16%
Tier 1 Risk-Based Capital to Average Assets (Leverage Capital Ratio)	10.95%	11.05%

(*) Includes off-balance sheet exposures.

Assets, less intangibles and the net unrealized market value adjustment of investment securities available for sale, averaged $457,207 for the six months ended June 30, 2006 and $443,677 for the year ended December 31, 2005.

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CORTLAND BANCORP AND SUBSIDIARIES
ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)
(Dollars in thousands)

In management s opinion, as supported by the data in the table below, the Company met all capital adequacy requirements to which it was subject as of June 30, 2006 and December 31, 2005. As of those dates, Cortland Bancorp was well capitalized under regulatory prompt corrective action provisions.

	Actual Regulatory Capital Ratios as of:		Regulatory Capital Ratio requirements to be:	
	June 30, 2006	Dec 31, 2005	Well Capitalized	Adequately Capitalized
Total risk-based capital to risk-weighted assets	20.76%	21.16%	10.00%	8.00%
Tier 1 capital to risk-weighted assets	19.89%	20.25%	6.00%	4.00%
Tier 1 capital to average assets	10.95%	11.05%	5.00%	4.00%

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CORTLAND BANCORP AND SUBSIDIARIES
ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)
(Dollars in thousands)

First Six Months of 2006 as Compared to First Six Months of 2005

During the first six months of 2006, net interest income after provision for loan losses increased by $35 compared to the first six months of 2005. Total interest income increased by $1,322 or 11.5%, from the level recorded in 2005. This was accompanied by an increase in interest expense of $1,407 or 34.9%, and a decrease in the provision for loan losses of $120. On a fully taxable equivalent basis, net interest income after provision for loan losses increased by $5.

The increase in net interest income after provision was the product of a 3.8% year-over-year increase in average earning assets. The Company s tax equivalent net interest margin for the first six months of 2006 measured 3.7% and 3.9% in the same period of 2005.

The average rate paid on interest sensitive liabilities increased by 70 basis points year-over-year. The average balance of interest sensitive liabilities increased by $16,369 or 5.0%. Compared to the first six months of last year, the average borrowings increased by $10,870, while the average rate paid on borrowings increased by 6 basis points.

Average interest-bearing demand deposits and balances on money market accounts decreased by $1,566, while savings deposits decreased by $5,856. The average rate paid on these products increased by 60 basis points in the aggregate. The average balance on time deposit products increased by $12,921, while the average rate paid increased by 67 basis points.

Interest and dividend income on securities registered an increase of $893, or 17.5%, during the first six months of 2006 when compared to 2005, while on a fully tax equivalent basis income on investment securities increased by $864 or 15.4%. The average invested balances increased by $19,293 from the levels of a year ago. The increase in the average balance of investment securities was accompanied by a 30 basis point increase in the tax equivalent yield of the portfolio.

Interest and fees on loans increased by $417, or 6.6%, for the first six months of 2006 compared to 2005, while on a fully tax equivalent basis income on loans also increased by $416 or 6.5%. A $2,948 decrease in the average balance of the loan portfolio, or 1.5%, was accompanied by a 56 basis point increase in the portfolio s tax equivalent yield.

Other interest income increased by $12 from the same period a year ago. The average balance of Federal Funds sold and other money market funds decreased by $689 or 22.1%. The yield on federal funds and other money market funds, increased by 176 basis points compared to the same period of 2005.

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CORTLAND BANCORP AND SUBSIDIARIES
ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS (CONTINUED)
(Dollars in thousands)

Other income from all sources decreased by $337 from the same period a year ago. Gains on 1-4 residential mortgage loans sold in the secondary mortgage market increased by $25 from the same period a year ago. Gains on securities called and net gains on the sale of available for sale investment securities decreased by $286 from year ago levels. Fees for other customer services decreased by $44 due mainly to a $37 decrease in service charge income on deposits. A loss on the sale of other real estate of $28 was recognized in the first half of 2006 with none in the same period a year ago. Other sources of non-recurring non-interest income decreased by $4 from the same period a year ago. This income category is subject to fluctuation due to non-recurring items.

Loan charge-offs during the first six months were $161 in 2006 compared to $91 in 2005, while the recovery of previously charged-off loans amounted to $43 in 2006 compared to $74 in 2005. A provision for loan loss of $130 was charged to operations in 2006 and $250 in 2005. Non-accrual loans at both June 30, 2006 and December 31, 2005 represented 2.0% of the loan portfolio. At June 30, 2006, the loan loss allowance of $2,180 represented approximately 1.1% of outstanding loans, and at June 30, 2005 the loan loss allowance of $2,862 represented approximately 1.5% of outstanding loans.

Total other expenses in the first six months were $6,018 in 2006 compared to $5,922 in 2005, an increase of $96, or 1.6%. Full time equivalent employment averaged 159 during the first six months of 2006 and 162 at June 30, 2005. Salaries and benefits increased by $15 or 0.4%, compared to the similar period a year ago. This increase is a combination of regular staff salary and benefit increases, a decline in retirement expense of $54 due to retirement of CEO in 2005 and a decline in full-time equivalent employment.

For the first six months of 2006, state and local taxes increased by $2. Occupancy and equipment expense decreased by $34 or 3.6%. This is due mainly to a $69 decrease in depreciation expense because many assets are fully depreciated, and a $35 increase in equipment maintenance. Office supplies decreased by $33. Marketing expense decreased by $22. Much of this decrease is due to the timing of marketing expenditures. Bank exam and audit expense increased by $78. All other expense categories increased by 9.5%, or $90 as a group. This is due partly to an increase in collection and foreclosure expense of $34, and a one-time sundry charge-off of $22. This expense category is subject to fluctuation due to non-recurring items.

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CORTLAND BANCORP AND SUBSIDIARIES
ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)
(Dollars in thousands)

Income before income tax expense amounted to $2,582 for the first six months of 2006 compared to $2,980 for the similar period of 2005. The effective tax rate for the first six months was 12.8% in 2006 compared to 19.8% in 2005, resulting in income tax expense of $331 and $590 respectively. The decrease in the effective tax rate reflects a one time adjustment to tax expense of $145 due to a change in tax accrual estimate. The effective tax rate before the $145 adjustment was 18.5%. The provision for income taxes differs from the amount of income tax determined applying the applicable U.S. statutory federal income tax rate to pre-tax income as a result of the following differences:

	June 30,	
	2006	2005
Provision at statutory rate	$ 878	$ 1,013
Add (Deduct):		
Tax effect of non-taxable income	(457)	(460)
Tax effect of non-deductible expense	55	37
Tax effect of change in estimate*	(145)	
Federal income taxes	$ 331	$ 590

* Includes a one-time adjustment to tax accrual estimate of $145 made in the first quarter of 2006.

Net income for the first six months registered $2,251 in 2006 compared to $2,390 in 2005, representing per share amounts of $0.51 in 2006 and $0.55 in 2005. Dividends declared per share were $0.44 in 2006 and $0.43 in 2005.

Core earnings (earnings before gains on loans sold, investment securities sold or called, other real estate losses and certain other non-recurring items) decreased by $91, or 4.2% in the first six months of 2006 compared to 2005. Core earnings for the six months of 2006 were $2,078 compared to last year s $2,169. Core earnings per share were $0.47 in 2006 and $0.50 in 2005. The following is reconciliation between core earnings and earnings under generally accepted accounting principles in the United States (GAAP earnings):

	Six Months Ended June 30	
	2006	2005
GAAP Earnings	$ 2,251	$ 2,390
Investment security gains	(18)	(304)
Gain on sale of loans	(56)	(31)
Loss on sale of other real estate	28	
Loss on disposition of fixed assets	3	
Other non-recurring items*	(145)	
Tax effect of adjustments	15	114
Core Earnings	$ 2,078	$ 2,169

Core earnings per share	$ 0.47	$ 0.50

* Includes a one-time change in tax accrual estimate made in the first quarter of 2006.

CORTLAND BANCORP AND SUBSIDIARIES
ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS (CONTINUED)
(Dollars in thousands)

Second Quarter of 2006 as Compared to Second Quarter of 2005

During the second quarter of 2006 net interest income after provision for loan losses decreased by $21 as compared to second quarter 2005. Year-over-year average earning assets increased by $16,572 or 4.0% and average interest-bearing liabilities increased by $17,434 or 5.3%. Average loans decreased by 0.7%, while average investments increased by 9.4%. Average interest-bearing deposits increased by 2.1% while borrowings increased by 24.4%.

The composite tax equivalent yield on earning assets increased by 38 basis points from the same quarter a year ago. The tax equivalent yield of the investment portfolio measured 5.5%, a 29 basis point increase from the same quarter a year ago, while the loan portfolio yielded 7.2%, up 51 basis points from last year s rate. The average rate on federal funds sold and other money market funds was 4.9%, up 198 basis points from last year. Meanwhile, the rate paid on interest-bearing liabilities increased 75 basis points compared to a year ago. The average rate paid on interest-bearing deposits was 2.8% up 79 basis points from last year. The net effect of these changes was that the tax equivalent net interest margin decreased by 25 basis points from 3.9% to 3.7%, and the average rate paid on federal funds purchased and other borrowings was 5.1% up 8 basis points from last year.

Loans net of the allowance for losses increased by $4,853 during the 12-month period from June 30, 2005 to June 30, 2006, and increased by $9,822 from year-end. The most notable increase in the portfolio has been in loans secured by commercial real estate. The Commercial lending area has originated $16,836 in commercial loans, during the first six months of 2006, $8,030 of which originated from five year and ten year fixed rate products developed specifically to attract new business account relationships. Gross loans as a percentage of earning assets stood at 45.7% as of June 30, 2006 and 47.1% at June 30, 2005. The loan to deposit ratio at the end of the first six months of 2006 was 57.7% and 57.5% for the same period a year ago. The investment portfolio represented 67.9% at June 30, 2006 and 63.5% at June 30,2005.

Total interest income increased by $664 or 11.4% from the same quarter a year ago. This was accompanied by a $759 increase in interest expense and a $74 decrease in the provision for loan losses.

Loan charge-offs during the second quarter were $98 in 2006 and $45 in 2005, while the recovery of previously charged-off loans amounted to $12 during the second quarter of 2006 compared to $35 in the same period of 2005.

Other income for the quarter increased by $31 or 4.4% compared to the same period a year ago. The net gain on loans sold during the quarter increased by $20 compared to a year ago. There was $2 in gains on investment and trading securities transactions in the second quarter of 2005 compared to the $18 gain realized in 2006. Fees from other customer services decreased by $7. A loss on other real estate of $28 was realized in the second quarter of 2006, while none was incurred during the comparable period of 2005. Other sources of non-recurring non-interest income increased by $30 from the same period a year ago due in part to a $26 increase in earnings on the bank owned life insurance policies.

Total other expenses in the second quarter were $3,049 in 2006 and $2,972 in 2005, an increase of $77 or 2.6%. Employee salaries and benefits decreased by $7 or 0.4%. Occupancy and equipment expense showed a $42 decrease, or 8.7%. Bank exam and audit expense showed an increase of $74, partly due to timing and increased external and internal audit expense. Other expenses, as a group increased by $52 or 7.0%, compared to the same period last year.

Income before tax for the quarter decreased by 4.8% to $1,329 in 2006 from the $1,396 recorded in 2005. Net income for the quarter of $1,076 represented a 4.9% decrease from the $1,132 earned a year ago. Earnings per share amounted to $0.24 for the second quarter of 2006 and $0.26 for 2005. Dividends declared per share were $0.22 both in 2006 and 2005.

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CORTLAND BANCORP AND SUBSIDIARIES
ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS (CONTINUED)
(Dollars in thousands)

Core earnings (earnings before gains on loans sold, investment securities sold or called, other real estate losses and certain other non recurring items) decreased by 5.3% in the second quarter of 2006 compared to 2005. Core earnings for the second quarter of 2006 were $1,057 compared to last year s $1,116. Core earnings per share were $0.24 in 2006 and $0.26 in 2005. The following is a reconciliation between core earnings and earnings under generally accepted accounting principles in the United States (GAAP earnings):

	Three Months Ended June 30,	
	2006	2005
GAAP Earnings	$ 1,076	$ 1,132
Investment security gains	(18)	(2)
Gain on sale of loans	(42)	(22)
Other real estate losses	28	
Loss on disposition of fixed assets	3	
Tax effect of adjustment	10	8
Core Earnings	$ 1,057	$ 1,116
Core earnings per share	$ 0.24	$ 0.26

Regulatory Matters

On March 13, 2000, the Board of Governors of the Federal Reserve System approved the Company s application to become a financial holding company. As a financial holding company, the Company may engage in activities that are financial in nature or incidental to a financial activity, as authorized by the Gramm-Leach-Bliley Act of 1999 (The Financial Services Reform Act). Under the Financial Services Reform Act, the Company may continue to claim the benefits of financial holding company status as long as each depository institution that it controls remains well capitalized and well managed.

The Company is required to provide notice to the Board of Governors of the Federal Reserve System when it becomes aware that any depository institution controlled by the Company ceases to be well capitalized or well managed. Furthermore, current regulation specifies that prior to initiating or engaging in any new activities that are authorized for financial holding companies, the Company s insured depository institutions must be rated satisfactory or better under the Community Reinvestment Act (CRA). The Company s bank subsidiary is rated satisfactory for CRA purposes, and remains well capitalized and well managed in Management s opinion.

CORTLAND BANCORP AND SUBSIDIARIES
ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)
(Dollars in thousands)

New Accounting Standards

In June 2006, the FASB issued FIN No. 48, Accounting for Uncertainty in Income Taxes , which clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109, Accounting for Income Taxes . This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of adopting this interpretation.

In November 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) 115-and 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments . This FSP provides guidance on when an investment in a debt or equity security should be considered impaired, when that impairment should be considered other-than-temporary, and measurement of the impairment loss. An investment is considered impaired if the fair value of the investment is less than its cost. If, after consideration of all available evidence to evaluate the realizable value of the investment, impairment is determined to be other-than-temporary, then an impairment loss should be recognized equal to the difference between the investment s cost and its fair value. The guidance also clarifies that an impairment loss should be recognized no later than when the impairment is deemed other-than-temporary, even if a decision to sell has not been made. This FSP nullifies certain provisions of Emerging Issues Task Force (EITF) Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, while retaining the disclosure requirements of EITF 03-1 which were adopted in 2003. FSP 115-1 and 124-1 is effective for reporting periods beginning after December 15, 2005. The Company applied the guidance in this FSP in 2005.

In May 2005, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 154 Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20, Accounting Changes and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements. SFAS No. 154 applies to all voluntary changes in accounting principle and changes the requirements for accounting for and reporting a change in accounting principle. SFAS No. 154 requires retrospective application to prior periods financial statements of a voluntary change in accounting principle unless it is impracticable. APB No. 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS No. 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005. The Company s adoption of SFAS No. 154 did not have a material impact on its earnings, cash flows and/or financial position.

Available Information

The Company files an annual report on Form 10K, quarterly reports on Form 10Q, current reports on Form 8K and amendments to those reports with the Securities and Exchange Commission (SEC) pursuant to Section 13 (a) or (15)d of the Exchange Act. The Company s Internet address is www.cortland-banks.com. The Company makes available through this address, free of charge, the reports filed, as soon as reasonably practicable after such material is electronically filed, or furnished to, the SEC. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov.

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CORTLAND BANCORP AND SUBSIDIARIES

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

(Dollars in thousands)

Management considers interest rate risk to be the Company s principal source of market risk. Interest rate risk is measured as the impact of interest rate changes on the Company s net interest income. Components of interest rate risk comprise re-pricing risk, basis risk and yield curve risk. Re-pricing risk arises due to timing differences in the re-pricing of assets and liabilities as interest rate changes occur. Basis risk occurs when re-pricing assets and liabilities reference different key rates. Yield curve risk arises when a shift occurs in the relationship among key rates across the maturity spectrum.

The effective management of interest rate risk seeks to limit the adverse impact of interest rate changes on the Company s net interest margin, providing the Company with the best opportunity for maintaining consistent earnings growth. Toward this end, Management uses computer simulation to model the Company s financial performance under varying interest rate scenarios. These scenarios may reflect changes in the level of interest rates, changes in the shape of the yield curve, and changes in interest rate relationships.

The simulation model allows Management to test and evaluate alternative responses to a changing interest rate environment. Typically when confronted with a heightened risk of rising interest rates, the Company will evaluate strategies that shorten investment and loan re-pricing intervals and maturities, emphasize the acquisition of floating rate over fixed rate assets, and lengthen the maturities of liability funding sources. When the risk of falling rates is perceived, Management will typically consider strategies that shorten the maturities of funding sources, lengthen the re-pricing intervals and maturities of investments and loans, and emphasize the acquisition of fixed rate assets over floating rate assets.

The most significant assumptions used in the simulation relate to the cash flows and re-pricing characteristics of the Company s balance sheet. Re-pricing and runoff rate assumptions are based on a detailed interface with actual customer information and investment data stored on the subsidiary bank s information systems. Consensus prepayments speeds derived from an independent third party source are used to adjust the runoff cash flows for the impact of the specific interest rate environments under consideration. Simulated results are benchmarked against historical results. Actual results may differ from simulated results not only due to the timing, magnitude and frequency of interest rate changes, but also due to changes in general economic conditions, changes in customer preferences and behavior, and changes in strategies by both existing and potential competitors.

The table on the following page shows the Company s current estimate of interest rate sensitivity based on the composition of the balance sheet at June 30, 2006, and December 31, 2005. For purposes of this analysis, short term interest rates as measured by the federal funds rate and the prime lending rate are assumed to increase (decrease) gradually over the subsequent twelve months reaching a level 300 basis points higher (lower) than the rates in effect at June 30, 2006 and December 31, 2005 for the respective simulations. Under both the rising rate scenario and the falling rate scenario, the yield curve is assumed to exhibit a parallel shift.

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CORTLAND BANCORP AND SUBSIDIARIES
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
(CONTINUED)
(Dollars in thousands)

Over the past twelve months, the Federal Reserve has increased its target rate for overnight federal funds by 200 basis points. At June 30, 2006, the difference between the yield on the ten-year Treasury and the three-month Treasury had decreased to a positive 14 basis points from the positive 31 basis points that existed at December 31, 2005. The change denotes a flattening of this portion of the yield curve. The yield curve overall, however was inverted, as interest rates in the six month time frame exceeded those up through ten years. Rates did peak at the 20-year time frame before falling again at the 30-year time horizon.

The base case against which interest rate sensitivity is measured assumes no change in short-term rates. The base case also assumes no growth in assets and liabilities and no change in asset or liability mix. Under these simulated conditions the base case projects net interest income of $15,793 for the twelve month period ending June 30, 2007.

Simulated Net Interest Income (NII) Scenarios
Fully Taxable Equivalent Basis
For the Twelve Months Ending

	Net Interest Income		$ Change in NII		% Change in NII	
Changes in Interest Rates	June 30, 2007	Dec. 31, 2006	June 30, 2007	Dec. 31, 2006	June 30, 2007	Dec. 31, 2006
Graduated increase of +300 basis points	$15,827	$15,385	$ 34	$ 8	0.2%	0.1%
Short term rates unchanged	15,793	15,377				
Graduated decrease of -300 basis points	15,553	14,643	(240)	(734)	(1.5)%	(4.8)%

The level of interest rate risk indicated is within limits that Management considers acceptable. However, given that interest rate movements can be sudden and unanticipated, and are increasingly influenced by global events and circumstances beyond the purview of the Federal Reserve, no assurance can be made that interest rate movements will not impact key assumptions and parameters in a manner not presently embodied by the model.

It is Management s opinion that hedging instruments currently available are not a cost effective means of controlling interest rate risk for the Company. Accordingly, the Company does not currently use financial derivatives, such as interest rate options, floors or other similar instruments.

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CORTLAND BANCORP AND SUBSIDIARIES

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. With the supervision and participation of management, including the Company s principal executive officer and principal financial officer, the effectiveness of disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the Exchange Act)) has been evaluated as of the end of the period covered by this report. Based upon that evaluation, the Company s principal executive officer and principal financial officer have concluded that such disclosure controls and procedures are, to the best of their knowledge, effective as of the end of the period covered by this report to ensure that material information relating to the Company and its consolidated subsidiaries is made known to them, particularly during the period for which our periodic reports, including this report, are being prepared.

Changes in Internal Control Over Financial Reporting. Our Chief Executive Officer and Chief Financial Officer have concluded that there have been no significant changes during the period covered by this report in the Company s internal control over financial reporting (as defined in Rules 13a-13 and 15d-15 of the Exchange Act) that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

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CORTLAND BANCORP AND SUBSIDIARIES

PART II OTHER INFORMATION

Item 1. Legal Proceedings

See Note (5) of the financial statements.

Item 1A Risk Factors

There have been no material changes from the risk factors previously disclosed in response to Item 1A of Part 1 of Form 10-K filed March 16, 2006

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

Not applicable

Item 3. Defaults upon Senior Securities

Not applicable

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

(a) On April 11, 2006, Cortland Bancorp held its annual meeting of shareholders.

(b) The following directors were elected for the three-year term ending in 2009.

George A. Gessner
James E. Hoffman III
Timothy K. Woofter

Directors whose terms of office continued after the annual meeting:

Jerry A. Carlton
David C. Cole
Lawrence A. Fantauzzi
Neil J. Kaback
K. Ray Mahan
Richard B. Thompson

(c) At the close of business on the record date 4,371,575 Cortland Bancorp shares were outstanding and entitled to vote.

The result of the election of directors was as follows:

	Votes Cast For	Votes Cast Against	Votes Abstained
George A. Gessner	3,178,839	54,299	0
James E. Hoffman III	3,133,834	99,304	0
Timothy K. Woofter	3,175,717	57,420	0

Item 5. Other Information

Not applicable

CORTLAND BANCORP AND SUBSIDIARIES
PART II OTHER INFORMATION (CONTINUED)

Item 6. Exhibits

Exhibit 2	Not applicable
Exhibit 3.1	Restated Amended Articles of Cortland Bancorp reflecting amendment dated May 18, 1999. Note: filed for purposes of SEC reporting compliance only. This restated document has not been filed with the State of Ohio. (1)
Exhibit 3.2	Code of Regulations, as amended (1)
Exhibit 4	The rights of holders of equity securities are defined in portions of the Articles of Incorporation and Code of Regulations as referenced in 3.1 and 3.2. (1)
* Exhibit 10.1	Group Term Carve Out Plan dated February 23,2001 and form of endorsement entered into in 2001 by The Cortland Savings and Banking Company with each executive officer other than Rodger W. Platt and with selected other officers, as amended by the August 2002 letter amendment (1)
* Exhibit 10.2	Group Term Carve Out Plan Amended Split Dollar Policy Endorsement entered into by The Cortland Savings and Banking Company on December 15, 2003 with Stephen A. Telego, Sr. (1)
* Exhibit 10.3	Director Retirement Agreement between Cortland Bancorp and Jerry A. Carleton, dated as of July 26, 2005 (1)
* Exhibit 10.4	Director Retirement Agreement between Cortland Bancorp and David C. Cole, dated as of March 1, 2001, as amended by letter amendment dated February 12, 2004 (1)
* Exhibit 10.5	Director Retirement Agreement between Cortland Bancorp and George E. Gessner, dated as of March 1, 2001, as amended by letter amendment dated February 12, 2004 (1)
* Exhibit 10.6	Amended Director Retirement Agreement between Cortland Bancorp and William A. Hagood, dated as of October 12, 2003 (1)
* Exhibit 10.7	Director Retirement Agreement between Cortland Bancorp and James E. Hoffman III, dated as of March 1, 2001, as amended by letter amendment dated February 12, 2004 (1)
* Exhibit 10.8	Director Retirement Agreement between Cortland Bancorp and Neil J. Kaback, dated as of March 1, 2004 (1)
* Exhibit 10.9	Director Retirement Agreement between Cortland Bancorp and K. Ray Mahan, dated as of March 1, 2001 (1)
* Exhibit 10.10	Amended and Restated Director Retirement Agreement between Cortland Bancorp and Richard B. Thompson, dated as of May 1, 2004 (1)
* Exhibit 10.11	Director Retirement Agreement between Cortland Bancorp and Timothy K. Woofter, dated as of March 1, 2001, as amended by letter amendment dated February 12, 2004 (1)

* Exhibit 10.12	Form of Split Dollar Agreement entered into by Cortland Bancorp and each of Directors David C. Cole, George E. Gessner, William A. Hagood, James E. Hoffman III, K. Ray Mahan, and Timothy K. Woofter as of February 23, 2001, as of March 1, 2004 with Director Neil J. Kaback, and as of October 1, 2001 with Director Richard B. Thompson; and Split Dollar Agreement and Endorsement entered into by Cortland Bancorp as of July 26, 2005 with Director Jerry A. Carleton (1)

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CORTLAND BANCORP AND SUBSIDIARIES
PART II OTHER INFORMATION (Continued)

* Exhibit 10.13	Split Dollar Agreement between The Cortland Savings and Banking Company and Rodger W. Platt dated of as February 23, 2001, as amended on August 15, 2002 and September 29, 2005 (1)
* Exhibit 10.14	Endorsement Split Dollar Agreement between The Cortland Savings and Banking Company and Rodger W. Platt dated as of September 29, 2005 (1)
* Exhibit 10.15	Form of Indemnification Agreement entered into by Cortland Bancorp with each of its directors as of May 24, 2005 (1)
* Exhibit 10.16	Amended Salary Continuation Agreement between The Cortland Savings and Banking Company and Rodger W. Platt, dated as of August 15, 2002 (1)
* Exhibit 10.17	Second Amended and Restated Salary Continuation Agreement between The Cortland Savings and Banking Company and Timothy Carney, dated as of December 17, 2003 (1)
* Exhibit 10.18	Second Amended and Restated Salary Continuation Agreement between The Cortland Savings and Banking Company and Lawrence A. Fantauzzi, dated as of December 16, 2003 (1)
* Exhibit 10.19	Second Amended and Restated Salary Continuation Agreement between The Cortland Savings and Banking Company and James M. Gasior, dated as of December 15, 2003 (1)
* Exhibit 10.20	Amended Salary Continuation Agreement between The Cortland Savings and Banking Company and Marlene Lenio, dated as of September 9, 2002 (1)
* Exhibit 10.21	Salary Continuation Agreement between The Cortland Savings and Banking Company and Craig Phythyon, dated as of December 15, 2003 (1)
* Exhibit 10.22	Second Amended and Restated Salary Continuation Agreement between The Cortland Savings and Banking Company and Stephen A. Telego, Sr., dated as of December 15, 2003 (1)
* Exhibit 10.23	Second Amended and Restated Salary Continuation Agreement between The Cortland Savings and Banking Company and Danny L. White, dated as of December 15, 2003 (1)
* Exhibit 10.24	Second Amended Split Dollar Agreement and Endorsement between The Cortland Savings and Banking Company and Timothy Carney, dated as of December 17, 2003 (1)
* Exhibit 10.25	Second Amended Split Dollar Agreement and Endorsement between The Cortland Savings and Banking Company and Lawrence A. Fantauzzi, dated as of December 16, 2003 (1)
* Exhibit 10.26	Second Amended Split Dollar Agreement and Endorsement between The Cortland Savings and Banking Company and James M. Gasior, dated as of December 15, 2003 (1)
* Exhibit 10.27	Amended Split Dollar Agreement between The Cortland Savings and Banking Company and Marlene Lenio, dated as of September 9, 2002 (1)

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CORTLAND BANCORP AND SUBSIDIARIES
PART II OTHER INFORMATION (Continued)

* Exhibit 10.28	Split Dollar Agreement and Endorsement between The Cortland Savings and Banking Company and Craig Phythyon, dated as of December 15, 2003 (1)
* Exhibit 10.29	Second Amended Split Dollar Agreement and Endorsement between The Cortland Savings and Banking Company and Stephen A. Telego, Sr., dated as of December 15, 2003 (1)
* Exhibit 10.30	Second Amended Split Dollar Agreement and Endorsement between The Cortland Savings and Banking Company and Danny L. White, dated as of December 15, 2003 (1)
* Exhibit 10.31	Severance Agreement Due to Change in Control of Cortland Bancorp entered by Cortland Bancorp and The Cortland Savings and Banking Company in January 2001 with each of Timothy Carney, Lawrence A. Fantauzzi, James M. Gasior, and Stephen A. Telego, Sr. (1)
* Exhibit 10.32	Severance Agreement Due to Change in Control of Cortland Bancorp entered by Cortland Bancorp and The Cortland Savings and Banking Company in January 2001 with each of Marlene Lenio, Barbara Sandrock, and Danny L. White (1)
Exhibit 11	See Note (6) of the Financial Statements
Exhibit 15	Not applicable
Exhibit 18	Not applicable
Exhibit 19	Not applicable
Exhibit 22	Not applicable
Exhibit 23	Not applicable
Exhibit 24	Not applicable
Exhibit 31.1	CEO certification (Filed herewith)
Exhibit 31.2	CFO certification (Filed herewith)
Exhibit 32	Certifications of Chief Executive Officer and Chief Financial Officer required under Section 906 of Sarbanes-Oxley Act of 2002 (Filed herewith)

* Management contract or compensatory plan or arrangement

(1) Filed previously as an Exhibit to

form 10-K filed
on March 16,
2006

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SIGNATURES

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

	Cortland Bancorp (Registrant)
DATED: August 8, 2006	/s/ Lawrence A. Fantauzzi
	Lawrence A. Fantauzzi President (Chief Executive Officer)
DATED: August 8, 2006	/s/ James M. Gasior
	James M. Gasior Secretary (Chief Financial Officer)

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