CORTLAND BANCORP INC
Form 10-Q
May 10, 2007

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: March 31, 2007

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. (Check One): 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 May 7, 2007 4,525,058 Shares

PART I FINANCIAL INFORMATION

PART II OTHER INFORMATION

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

	(Unaudited) MARCH 31, 2007	(Audited) DECEMBER 31, 2006
ASSETS		
Cash and due from banks	**$ 8,880**	$ 10,100
Federal funds sold	**11,450**	4,275
Total cash and cash equivalents	**20,330**	14,375
Investment securities available for sale (Note 3)	**109,425**	108,484
Investment securities held to maturity (approximate market value of $121,885 at March 31, 2007 and $124,136 at December 31, 2006 (Note 3)	**121,809**	124,619
Total loans (Note 4)	**209,102**	205,208
Less allowance for loan losses (Note 4)	**(2,083)**	(2,211)
Net loans	**207,019**	202,997
Premises and equipment	**5,042**	4,780
Other assets	**17,229**	16,496
Total assets	**$ 480,854**	$ 471,751
LIABILITIES		
Noninterest-bearing deposits	**$ 57,455**	$ 60,983
Interest-bearing deposits	**302,023**	294,835
Total deposits	**359,478**	355,818
Federal Home Loan Bank advances and other borrowings	**66,815**	62,015
Other liabilities	**3,445**	3,326
Total liabilities	**429,738**	421,159
SHAREHOLDERS EQUITY		
Common stock $5.00 stated value authorized 20,000,000 shares; issued 4,594,344 shares in both 2007 and 2006 (Note 1)	**22,972**	22,972
Additional paid-in capital (Note 1)	**20,755**	20,835
Retained earnings	**9,662**	9,553
Accumulated other comprehensive income (loss) (Note 1)	**(273)**	(455)
Treasury shares at cost, 82,827 at March 31, 2007 and 95,809 at December 31, 2006	**(2,000)**	(2,313)

Total shareholders equity		**51,116**		50,592
Total liabilities and shareholders equity	**$**	**480,854**	$	471,751

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

2

CORTLAND BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(Amounts in thousands, except per share data)

	THREE MONTHS ENDED MARCH 31,	
	2007	2006
INTEREST INCOME		
Interest and fees on loans	**$ 3,785**	$ 3,306
Interest and dividends on investment securities:		
Taxable interest income	**1,609**	1,403
Nontaxable interest income	**477**	531
Dividends	**53**	45
Interest on mortgage-backed securities	**892**	996
Other interest income	**114**	38
Total interest income	**6,930**	6,319
INTEREST EXPENSE		
Deposits	**2,382**	1,934
Borrowed funds	**834**	719
Total interest expense	**3,216**	2,653
Net interest income	**3,714**	3,666
Provision for loan losses		66
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	**3,714**	3,600
OTHER INCOME		
Fees for other customer services	**541**	502
Investment securities gains net	**12**	
Gain on sale of loans net	**16**	14
Earnings on bank owned life insurance	**131**	89
Other non-interest income	**24**	17
Total other income	**724**	622
OTHER EXPENSES		
Salaries and employee benefits	**1,820**	1,678
Net occupancy and equipment expense	**468**	465
State and local taxes	**146**	139
Bank exam and audit expense	**94**	125
Office supplies	**86**	104

Other operating expenses	**449**	458
Total other expenses	**3,063**	2,969
INCOME BEFORE FEDERAL INCOME TAXES	**1,375**	1,253
Federal income taxes	**273**	78
NET INCOME	**$ 1,102**	$ 1,175
BASIC EARNINGS PER COMMON SHARE (NOTE 6)	**$ 0.24**	$ 0.26
DILUTED EARNINGS PER COMMON SHARE (NOTE 6)	**$ 0.24**	$ 0.26
CASH DIVIDENDS DECLARED PER SHARE	**$ 0.22**	$ 0.21

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

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
THREE MONTHS ENDED MARCH 31, 2006:						
BALANCE AT JANUARY 1, 2006	$ 22,523	$ 20,211	$ 10,310	$ (877)	$ (3,842)	$ 48,325
Comprehensive income:						
Net income			1,175			1,175
Other comprehensive income, net of tax:						
Unrealized gains or (losses) on available-for-sale securities, net of reclassification adjustment				(419)		(419)
Total comprehensive income						756
Common stock transactions:						
Treasury shares reissued		(119)			565	446
Cash dividends declared			(962)			(962)
BALANCE AT MARCH 31, 2006	$ 22,523	$ 20,092	$ 10,523	$ (1,296)	$ (3,277)	$ 48,565
THREE MONTHS ENDED MARCH 31, 2007						
BALANCE AT JANUARY 1, 2007	**$ 22,972**	**$ 20,835**	**$ 9,553**	**$ (455)**	**$ (2,313)**	**$ 50,592**
Comprehensive income:						

Net income			**1,102**			**1,102**
Other comprehensive income, net of tax:						
Unrealized gains or (losses) on available-for-sale securities, net of reclassification adjustment				**182**		**182**
Total comprehensive income						**1,284**
Common stock transactions:						
Treasury shares reissued		**(80)**			**313**	**233**
Cash dividends declared			**(993)**			**(993)**
BALANCE AT MARCH 31, 2007	**$ 22,972**	**$ 20,755**	**$ 9,662**	**$ (273)**	**$ (2,000)**	**$ 51,116**

	MARCH 31,	
	2007	2006
DISCLOSURE OF RECLASSIFICATION FOR AVAILABLE FOR SALE SECURITY GAINS AND LOSSES:		
Net unrealized holding gains or (losses) on available-for-sale securities arising during the period, net of tax	**$190**	$(419)
Less: Reclassification adjustment for net gains realized in net income, net of tax	**8**	
Net unrealized gains (losses) on available-for-sale securities, net of tax	**$182**	$(419)

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

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

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2007	2006
NET CASH FLOWS FROM OPERATING ACTIVITIES	**$ 368**	$ 191
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities held to maturity	**(998)**	(6,386)
Purchases of securities available for sale	**(5,463)**	(1,057)
Proceeds from call, maturity and principal payments on securities	**8,518**	4,768
Net increase in loans made to customers	**(3,813)**	(1,381)
Proceeds from disposition of other real estate	**34**	
Purchase of premises and equipment	**(391)**	(168)
Net cash flows from investing activities	**(2,113)**	(4,224)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposit accounts	**3,660**	(3,487)
Net increase in borrowings	**4,800**	117
Dividends paid	**(993)**	(962)
Treasury shares reissued	**233**	446
Net cash flows from financing activities	**7,700**	(3,886)
NET CHANGE IN CASH AND CASH EQUIVALENTS	**5,955**	(7,919)
CASH AND CASH EQUIVALENTS		
Beginning of period	**14,375**	19,237
End of period	**$ 20,330**	$ 11,318
SUPPLEMENTAL DISCLOSURES		
Interest paid	**$ 3,205**	$ 2,639
Income taxes paid	**$ 0**	$ 0

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

CORTLAND BANCORP AND SUBSIDIARIES

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 three months ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. These interim unaudited consolidated financial statements should be read in conjunction with our annual audited financial statements as of December 31, 2006, included in our Form 10-K for the year ended December 31, 2006, filed with the United States Securities and Exchange Commission. The accompanying consolidated balance sheet at December 31, 2006, 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 2006 financial statements have been reclassified to conform to the presentation for 2007. 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.

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 March 31, 2007	2006
Proceeds on securities sold	$None	$None
Gross realized gains	None	None
Gross realized losses	None	None
Proceeds on securities called	$617	$None
Gross realized gains	12	None
Gross realized losses	None	None

Securities available for sale, carried at fair value, totaled $109,425 at March 31, 2007 and $108,484 at December 31, 2006 representing 47.3% and 46.5%, 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 $88,302 at March 31, 2007 and $75,489 at December 31, 2006 were pledged to secure deposits and for other purposes.

CORTLAND BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Dollars in thousands)

The amortized cost and estimated market value of debt securities at March 31, 2007, 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.

	AMORTIZED COST	ESTIMATED FAIR VALUE
Investment securities available for sale		
Due in one year or less	$ 2,834	$ 2,825
Due after one year through five years	7,492	7,437
Due after five years through ten years	3,168	3,017
Due after ten years	35,748	36,191
	49,242	49,470
Mortgage-backed securities	57,016	56,374
	$ 106,258	$ 105,844

	AMORTIZED COST	ESTIMATED FAIR VALUE
Investment securities held to maturity		
Due in one year or less	$ 1,360	$ 1,385
Due after one year through five years	5,432	5,397
Due after five years through ten years	34,406	34,284
Due after ten years	62,185	62,581
	103,383	103,647
Mortgage-backed securities	18,426	18,238
	$ 121,809	$ 121,885

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 March 31, 2007, 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	$ 10,899	$ 18	$ 94	$ 10,823
Obligations of states and political subdivisions	9,439	320	2	9,757
Mortgage-backed and related securities	57,016	213	855	56,374
Corporate securities	28,904	147	161	28,890
Total debt securities	106,258	698	1,112	105,844
Other securities	3,581			3,581
Total available for sale	$ 109,839	$ 698	$ 1,112	$ 109,425

Investment securities held to maturity	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
U.S. Treasury Securities	$ 142	$ 1	$	$ 143
U.S. Government agencies and corporations	73,705	5	701	73,009
Obligations of states and political subdivisions	29,536	973	14	30,495
Mortgage-backed and related securities	18,426	30	218	18,238
Total held to maturity	$ 121,809	$ 1,009	$ 933	$ 121,885

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, 2006:

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
Investment securities available for sale				
U.S. Government agencies and corporations	$ 12,919	$ 13	$ 136	$ 12,796
Obligations of states and political subdivisions	9,451	348	1	9,798
Mortgage-backed and related securities	55,062	192	1,057	54,197
Corporate securities	28,160	101	149	28,112
Total debt securities	105,592	654	1,343	104,903
Other securities	3,581			3,581
Total available for sale	$ 109,173	$ 654	$ 1,343	$ 108,484

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
Investment securities held to maturity				
U.S. Treasury Securities	$ 143	$	$	$ 143
U.S. Government agencies and corporations	73,743		1,239	72,504
Obligations of states and political subdivisions	31,009	1,067	13	32,063
Mortgage-backed and related securities	19,724		298	19,426
Total held to maturity	$ 124,619	$ 1,067	$ 1,550	$ 124,136

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	
	March 31, 2007	December 31, 2006
Financial instruments whose contract amount represents credit risk:		
Commitments to extend credit:		
Fixed rate	$ 2,362	$ 3,102
Variable	35,195	44,422
Standby letters of credit	1,810	1,810

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 demand deposit accounts owned accounts in good standing for business, 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 March 31, 2007 totaled $11,522 and $9,827 at December 31, 2006. The total average daily balance of overdrafts used in 2007 was $143 and $151 in 2006, or approximately 1.2% of the total aggregate overdraft protection available to depositors at March 31, 2007 and 1.5% at December 31, 2006.

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:

	March 31, 2007	December 31, 2006
1-4 family residential mortgages	30.6%	30.7%
Commercial mortgages	52.5%	51.7%
Consumer loans	3.8%	3.8%
Commercial loans	7.9%	8.5%
Home equity loans	5.2%	5.3%

There are $461 in mortgage loans held for sale included in 1-4 family residential mortgages as of March 31, 2007, and $109 at December 31, 2006. 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 March 31, 2007 and December 31, 2006:

	March 31, 2007	December 31, 2006
Loans accounted for on a non-accrual basis	$ 3,181	$ 3,923
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)	107	NONE

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 three months ended March 31, 2007 and 2006.

	March 31, 2007	March 31, 2006
Gross interest income that would have been recorded if the loans had been current in accordance with their original terms (contractual interest income)	$ 72	$ 120
Interest income actually included in income on the loans	4	2

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 March 31, 2007, the recorded investment in impaired loans was $1,530 while the related portion of the allowance for loan losses was $704. At December 31, 2006, there were $1,939 in loans considered impaired while the allocated portion of the allowance for loan losses for such loans was $815.

Loans in the amount of $12,244 as of March 31, 2007, and $13,765 as of December 31, 2006 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.

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 March 31, 2007 and March 31, 2006:

	THREE MONTHS	
	2007	2006
Balance at beginning of period	$ 2,211	$ 2,168
Loan charge-offs:		
1-4 family residential mortgages		5
Commercial mortgages	115	20
Consumer loans and other loans	34	38
Commercial loans		
Home equity loans		
	149	63
Recoveries on previous loan losses:		
1 - 4 family residential mortgages		
Commercial mortgages		
Consumer loans and other loans	21	27
Commercial loans		4
Home equity loans		
	21	31
Net charge-offs	(128)	(32)
Provision charged to operations		66
Balance at end of period	$ 2,083	$ 2,202
Ratio of annualized net charge-offs to average loans outstanding	0.25%	0.07%

Charge-offs in the first quarter of 2007 includes an impaired loan in the amount of $98 for which a specific loss reserve had previously been established.

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 systematically updated to reflect actual experience and changing circumstances.

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 March 31, 2007	2006
Net Income	$ 1,102	$ 1,175
Weighted average common shares outstanding*	4,511,378	4,458,172
Basic earnings per share*	$ 0.24	$ 0.26
Diluted earnings per share*	$ 0.24	$ 0.26
Dividends declared per share*	$ 0.22	$ 0.21

* Average shares outstanding and the resulting per share amounts have been restated to give retroactive effect to the 2% stock dividend of January 1, 2007.

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

	March 31, 2007			**YEAR TO DATE AS OF DECEMBER 31, 2006**			March 31, 2006		
	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	**$ 8,773**	**$ 114**	**5.3%**	$ 4,228	$ 215	5.1%	$ 3,500	$ 38	4.4%
Investment securities (1) (2)	**231,391**	**3,249**	**5.6%**	234,969	12,935	5.5%	238,304	3,221	5.4%
Loans (2) (3)	**208,869**	**3,803**	**7.3%**	195,838	14,381	7.4%	188,272	3,332	7.2%
Total interest-earning assets	**449,033**	**$ 7,166**	**6.4%**	435,035	$ 27,531	6.3%	430,076	$ 6,591	6.2%
Cash and due from banks	**8,440**			8,733			9,236		
Bank premises and equipment	**4,898**			4,226			4,116		
Other assets	**13,409**			12,365			11,931		
Total non-interest-earning assets	**26,747**			25,324			25,283		
Total Assets	**$ 475,780**			$ 460,359			$ 455,359		
LIABILITIES AND SHAREHOLDERS EQUITY									
Interest-bearing demand deposits	**$ 44,363**	**$ 189**	**1.7%**	$ 47,415	$ 752	1.6%	$ 46,359	$ 162	1.4%
Savings	**80,245**	**201**	**1.0%**	82,845	850	1.0%	85,260	215	1.0%
Time	**173,433**	**1,992**	**4.7%**	161,050	6,907	4.3%	157,423	1,557	4.0%
Total interest-bearing deposits	**298,041**	**2,382**	**3.2%**	291,310	8,509	2.9%	289,042	1,934	2.7%
Federal funds purchased				478	25	5.3%	81	1	4.8%
Other borrowings	**65,550**	**834**	**5.2%**	58,773	3,048	5.2%	57,546	718	5.1%

Total interest-bearing liabilities	**363,591**	**$ 3,216**	**3.6%**	350,561	$ 11,582	3.3%	346,669	$ 2,653	3.1%
Demand deposits	**57,747**			57,271			56,845		
Other liabilities	**3,473**			3,214			3,075		
Shareholders equity	**50,969**			49,313			48,770		
Total liabilities and Shareholders equity	**$ 475,780**			$ 460,359			$ 455,359		
Net interest income		**$ 3,950**			$ 15,949			$ 3,938	
Net interest rate spread (4)			**2.8%**			3.0%			3.1%
Net interest margin (5)			**3.5%**			3.7%			3.7%
Ratio of interest-earning assets to interest-bearing liabilities			**1.23**			1.24			1.24

(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 $18 and $218 for 2007, $90 and $944 for December 31, 2006, and $26 and $246 for March 2006.

(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 difference 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

CORTLAND BANCORP AND SUBSIDIARIES
ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (UNAUDITED)

SELECTED FINANCIAL DATA FOR QUARTER ENDED
(In thousands of dollars, except for ratios and per share amounts)

	March 31, 2007	**December 31, 2006**	**September 30, 2006**	**June 30, 2006**	**March 31, 2006**
SUMMARY OF OPERATIONS					
Total interest income	**$ 6,930**	$ 6,889	$ 6,796	$ 6,493	$ 6,319
Total interest expense	**3,216**	3,166	2,980	2,783	2,653
NET INTEREST INCOME (NII)	**3,714**	3,723	3,816	3,710	3,666
Provision for loan losses		50	45	64	66
NII after loss provision	**3,714**	3,673	3,771	3,646	3,600
Security gains (losses)	**12**			18	
Gain on sale of loans	**16**	37	13	42	14
Total other income	**724**	772	709	732	622
Total other expense	**3,063**	2,962	3,041	3,049	2,969
Income before tax	**1,375**	1,483	1,439	1,329	1,253
Net income	**$ 1,102**	$ 1,182	$ 1,143	$ 1,076	$ 1,175
Core earnings (1)	**$ 1,086**	$ 1,166	$ 1,139	$ 1,057	$ 1,021
Net income (Rolling 4 Quarters) (2)	**$ 4,503**	$ 4,576	$ 4,487	$ 4,195	$ 4,251
Core earnings (Rolling 4 Quarters)	**$ 4,448**	$ 4,383	$ 4,292	$ 4,143	$ 4,202
PER COMMON SHARE DATA (3)					
Net income, both basic and diluted	**$ 0.24**	$ 0.26	$ 0.26	$ 0.24	$ 0.26
Net income, both basic and diluted (Rolling 4 Quarters)	**1.00**	1.02	1.01	0.94	0.96
Core income, both basic and diluted	**0.24**	0.26	0.25	0.24	0.23
Core income, both basic and diluted (Rolling 4 Quarters)	**0.99**	0.98	0.96	0.93	0.95
Cash dividends declared	**0.22**	0.22	0.21	0.21	0.21
Cash dividends declared (Rolling 4 Quarters)	**0.86**	0.85	1.05	1.05	1.05
Book value	**11.33**	11.25	10.93	10.67	10.89

BALANCE SHEET DATA					
Assets	**$480,854**	$471,751	$466,633	$460,552	$456,658
Investments	**231,234**	233,103	230,819	233,365	236,551
Net loans	**207,019**	202,997	196,555	195,856	187,529
Deposits	**359,478**	355,818	353,640	343,480	346,888
Borrowings	**66,815**	62,015	59,925	65,458	58,228
Shareholders equity	**51,116**	50,592	50,001	48,659	48,565
AVERAGE BALANCES					
Assets	**$475,780**	$469,753	$459,558	$456,944	$455,359
Investments	**231,391**	231,009	233,177	237,486	238,304
Net loans	**206,736**	200,502	196,915	190,897	186,083
Deposits	**355,788**	355,836	346,335	346,184	345,887
Borrowings	**65,550**	59,795	60,690	58,851	57,627
Shareholders equity	**50,969**	50,518	49,398	48,870	48,770
ASSET QUALITY RATIOS					
Underperforming assets as a percentage of:					
Total assets	**0.71%**	0.84%	0.83%	0.88%	0.78%
Equity plus allowance for loan losses	**6.45**	7.50	7.44	7.95	6.98
Tier I capital	**6.69**	7.77	7.70	8.07	7.12
FINANCIAL RATIOS					
Return on average equity	**8.65%**	9.36%	9.26%	8.81%	9.64%
Return on average equity (Rolling 4 Quarters)	**9.02**	9.26	9.15	8.52	8.60
Return on average assets	**0.93**	1.01	0.99	0.94	1.03
Return on average assets (Rolling 4 Quarters)	**0.97**	0.99	0.98	0.93	0.95
Effective tax rate (4)	**19.85**	20.29	20.56	19.04	17.80
Net interest margin ratio	**3.51**	3.55	3.69	3.68	3.70

(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.

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 2006 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 2006 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 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 increased by $9,012 from March 31, 2006 and by $5,955 from levels measured at year-end. The increase is mainly attributable to increased levels of deposits and borrowings, a decrease in the balance of the investment portfolio and a resultant increase in federal funds sold. Operating activities provided cash of $368 and $191 during the three months ended March 31, 2007 and 2006, respectively. Key differences stem mainly from: 1) a decrease in net income of $73 compared to March 31, 2006; 2) loans held for sale increased by $352 at March 31, 2007 as compared to an increase of $315 at March 31, 2006; 3) gains on the sale of investments was $12 at March 31, 2007 where there was none at March 31, 2006; 4) amortization on securities was $100 in 2007 compared to $141 in 2006; and 5) provision for loan loss was $66 at March 31, 2006 compared to none at March 31, 2007. Refer to the Consolidated Statements of Cash Flows for a summary of the sources and uses of cash for March 31, 2007 and 2006, and the following table which details the cash flows from operating activities.

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

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Net Income	$ 1,102	$ 1,175
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation, amortization and accretion	227	270
Provision for loan loss		66
Investment securities gains	(12)	
Other real estate losses	1	
Impact of loans held for sale	(352)	(315)
Changes in other assets and liabilities	(598)	(1,005)
Net cash flows from operating activities	$ 368	$ 191

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 0.85% for the three months ended March 31, 2007 and 1.72% for the three months ended March 31, 2006. 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 4.1%. 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.

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 March 31, 2007 and December 31, 2006.

	March 31, 2007	December 31, 2006
Tier 1 Capital	$ 51,264	$ 50,913
Tier 2 Capital	2,099	2,238
TOTAL QUALIFYING CAPITAL	$ 53,363	$ 53,151
Risk Adjusted Total Assets (*)	$ 269,122	$ 266,686
Tier 1 Risk-Based Capital Ratio	19.05%	19.09%
Total Risk-Based Capital Ratio	19.83%	19.93%
Tier 1 Risk-Based Capital to Average Assets (Leverage Capital Ratio)	10.77%	11.04%

(*) Includes off-balance sheet exposures.

Assets, less intangibles and the net unrealized market value adjustment of investment securities available for sale, averaged $476,085 for the three months ended March 31, 2007 and $461,215 for the year ended December 31, 2006.

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 March, 31, 2007 and December 31, 2006. 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:	
	March 31, 2007	Dec 31, 2006	Well Capitalized	Adequately Capitalized
Total risk-based capital to risk-weighted assets	19.83%	19.93%	10.00%	8.00%
Tier 1 capital to risk-weighted assets	19.05%	19.09%	6.00%	4.00%
Tier 1 capital to average assets	10.77%	11.04%	5.00%	4.00%

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

First Three Months of 2007 as Compared to First three Months of 2006

Analysis of Net Interest Income

	INTEREST MARGIN YTD					
	March 31, 2007			March 31, 2006		
	Average Balance (1)	**Interest**	**Average Rate**	Average Balance (1)	Interest	Average Rate
INTEREST-EARNING ASSETS						
Federal funds sold and other money market funds	$ 8,773	$ 114	5.3%	$ 3,500	$ 38	4.4%
Investment securities (1) (2)	231,391	3,249	5.6%	238,304	3,221	5.4%
Loans (2) (3)	208,869	3,803	7.3%	188,272	3,332	7.2%
Total interest-earning assets	$ 449,033	$ 7,166	6.4%	$ 430,076	$ 6,591	6.2%
INTEREST-BEARING LIABILITIES						
Interest-bearing demand deposits	$ 44,363	$ 189	1.7%	$ 46,359	$ 162	1.4%
Savings	80,245	201	1.0%	85,260	215	1.0%
Time	173,433	1,992	4.7%	157,423	1,557	4.0%
Total interest-bearing deposits	298,041	2,382	3.2%	289,042	1,934	2.7%
Federal funds purchased			0.0%	81	1	4.8%
Other borrowings	65,550	834	5.2%	57,546	718	5.1%
Total interest-bearing liabilities	$ 363,591	$ 3,216	3.6%	$ 346,669	$ 2,653	3.1%
Net interest income		$ 3,950			$ 3,938	
Net interest rate spread (4)			2.8%			3.1%
Net interest margin (5)			3.5%			3.7%

(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 investments is $18 and $218 for March 2007 and $26 and $246 for March 2006.

(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 deposits.

(5) Interest margin is calculated by dividing the difference between total interest earned and total interest expensed by total interest-earning assets.

The increase in interest income was the product of a 4.4% year-over-year increase in average earning assets and a 21 basis point increase in interest rates earned, while the increase in interest expense was a product of a 4.9% increase in interest-bearing liabilities and a 48 basis point increase in rates paid. The net result was a 0.3% increase in net interest income on a fully tax equivalent basis and a 19 basis point decrease in the net interest margin.

Interest and dividend income on securities registered an increase of $56, or 1.9%, during the quarter ended March 31, 2007 when compared to 2006. On a fully tax equivalent basis, income on investment securities increased by $28 or 0.9%. The average invested balances decreased by $6,913 from the levels of a year ago. The decrease in the average balance of investment securities was accompanied by a 22 basis point increase in the tax equivalent yield of the portfolio.

Interest and fees on loans increased by $479 or 14.5%, while on a fully tax equivalent basis, income on loans increased by $471 or 14.1%, for the three months of 2007 compared to 2006. A $20,597 increase in the average balance of the loan portfolio, or 10.9%, was accompanied by a 12 basis point increase in the portfolio s tax equivalent yield.

Other interest income increased by $76 from the same period a year ago. The average balance of federal funds sold and other money market funds increased by $5,273 or 150.7%. The yield increased by 87 basis points during the first three months of 2007 compared to 2006.

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

Average interest-bearing demand deposits and money market accounts decreased by $1,996, and savings decreased by $5,015. The average rate paid on these products increased by 11 basis points in the aggregate. The average balance on time deposit products increased by $16,010, as the average rate paid increased by 65 basis points, from 4.0% to 4.7%.

Compared to the same quarter last year, average borrowings and federal funds purchased increased by $7,923, while the average rate paid on borrowings increased by 9 basis points.

Net interest income after provision for loan losses benefited from improving asset quality negating the need for any additional provision for loan loss, and contributed an additional $66,000 compared to the first quarter of a year ago.

Analysis of Other Income, Other Expense and Federal Income Tax

Other income from all sources increased by $102 from the same period a year ago. Gains on 1-4 residential mortgage loans sold in the secondary mortgage market increased by $2 from the same period a year ago. Gains on securities called and net gains on the sale of available for sale investment securities increased by $12 from year ago levels. Fees for other customer services increased by $39 due mainly to a $35 increase in service charge income on deposits. Earnings on bank owned life insurance increased by $42. Other sources of non-recurring non-interest income increased by $7 from the same period a year ago. This latter income category is subject to fluctuation due to the non-recurring nature of the items.

Loan charge-offs during the first three months were $149 in 2007 compared to $63 in 2006, while the recovery of previously charged-off loans amounted to $21 in 2007 compared to $31 in 2006. The increase in charge-offs includes an impaired loan in the amount of $98 in 2007 for which a specific loss reserve had previously been established. A provision for loan loss of $66 was charged to operations in 2006 and none in 2007. Non-accrual loans at March 31, 2007 represented 1.5% of the loan portfolio compared to 1.8% at March 31, 2006.

Total other expenses in the first three months were $3,063 in 2007 compared to $2,969 in 2006, an increase of $94, or 3.2%. Full time equivalent employment averaged 167 during the first three months of 2007 compared to 158 at March 31, 2006. Salaries and benefits increased by $142 or 8.5%, from the similar period a year ago. This increase is a combination of regular staff salary and benefit increases and an increase in full-time equivalent employment.

For the first three months of 2007, state and local taxes increased by $7. Occupancy and equipment expense increased by $3 or 0.6%. Office supplies decreased by $18 with much of the decrease due to the timing of expenditures. Bank exam and audit expense decreased by $31, due again to differences in the timing of expenditures. All other expense categories decreased by 2.0%, or $9 as a group. This expense category is subject to fluctuation due to non-recurring items.

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 $1,375 for the first three months of 2007 compared to $1,253 for the similar period of 2006. The effective tax rate for the first three months was 19.9% in 2007 compared to 6.2% in 2006, resulting in income tax expense of $273 and $78 respectively. The difference in the effective tax rate primarily reflects a one time adjustment to tax expense of $145 due to a change in tax accrual estimate made in the first quarter of 2006. The effective tax rate before the $145 adjustment was 17.8% at March 31, 2006. 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:

	March 31,	
	2007	2006
Provision at statutory rate	$ 468	$ 426
Add (Deduct):		
Tax effect of non-taxable income	(221)	(230)
Tax effect of non-deductible expense	26	27
Tax effect of change in estimate*		(145)
Federal income taxes	$ 273	$ 78

* A one-time adjustment to tax accrual estimate made in the first quarter of 2006.

Net income for the first three months registered $1,102 in 2007 compared to $1,175 in 2006, representing per share amounts of $0.24 in 2007 and $0.26 in 2006. Dividends declared per share were $0.22 in 2007 and $0.21 in 2006.

Core earnings (earnings before gains on loans sold, investment securities sold or called, other real estate losses and certain other non-recurring items) increased by $65, or 6.4% in the first three months of 2007 compared to 2006. Core earnings for the three months of 2007 were $1,086 compared to last year s $1,021. Core earnings per share were $0.24 in 2007 and $0.23 in 2006. The following is a reconciliation between core earnings and earnings under generally accepted accounting principles in the United States (GAAP earnings):

	Three Months Ended March 31	
	2007	2006
GAAP Earnings	$ 1,102	$ 1,175
Investment security gains	(12)	
Gain on sale of loans	(16)	(14)
Loss on sale of other real estate	1	
Loss on disposition of fixed assets	2	
Other non-recurring items*		(145)
Tax effect of adjustments	9	5
Core Earnings	$ 1,086	$ 1,021

Core earnings per share	$ 0.24	$ 0.23

* 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)

Analysis of Assets and Liabilities

Total cash and cash equivalents increased by $5,955 from year-end, and $9,012 from the twelve month period ending March 31, 2006. This increase is due mainly to increased federal funds sold, which increased by $7,175 from year-end and $9,850 from March 31, 2006, due to an increase in deposit and borrowing levels and a decrease in the balance of the investment portfolio. Bank management has elected to employ a higher level of federal funds sold due to the current and anticipated shape of the yield curve and to achieve a higher level of short-term liquidity needed to support increased loan demand.

Investment securities decreased by $1,869 from year-end levels and by $5,317 from the same quarter a year ago as much of the proceeds have gone into short-term federal funds sold. The investment portfolio represented 64.3% of each deposit dollar, down from 68.2% a year ago.

Loans net of the allowance for losses increased by $19,490 during the twelve month period from March 31, 2006 to March 31, 2007, and increased by $4,022 from year-end. Gross loans as a percentage of earning assets stood at 47.5% as of March 31, 2007 and 44.5% at March 31, 2006. The loan to deposit ratio at the end of the first three months of 2007 was 58.2% and 54.7% for the same period a year ago. The increase in loans has primarily resulted from a marketing campaign designed to increase market share for commercial and small business loans secured by real estate. At March 31, 2007 the loan loss allowance of $2,083 represented approximately 1.0% of outstanding loans, and at March 31, 2006, the loan loss allowance of $2,202 represented approximately 1.2% of outstanding loans.

Premises and equipment increased by $262 from year-end and $915 from March 31, 2006. This is mainly due to $616 in construction in progress on a 2,500 square foot banking facility. The banking office will replace an existing leased bank location in the village of Windham. It is expected to open in mid to late May 2007.

Other assets remained relatively steady increasing by $733 or 4.4% from year-end and $96 or 0.6% from March 31, 2006. Included in other assets is bank owned life insurance with a balance of $11,934 at March 31, 2007, $11,814 at December 31, 2006 and $11,381 at March 31, 2006.

Non interest-bearing deposits decreased by $3,528 from year-end and $2,010 from twelve months ago. Interest-bearing deposits increased by $7,188 from year-end and $14,600 from March 31, 2006. The increase is due primarily to an increase in certificates of deposit in the amount of $100 or more, which increased by $18,436 from March 31, 2006. There are no brokered deposits among the Company s deposit totals.

Borrowings, mainly from Federal Home Loan Bank increased by $4,800 from year-end and $8,587 from March 31, 2006. Bank management elected to obtain $8,000 in FHLB advances during the previous twelve months to assist in funding an anticipated increase in loan demand. The average rate on the advances was 4.4%.

Other liabilities also remained relatively stable ranging from $2,977 at March 31, 2006 to $3,326 at December 31, 2006 and $3,445 at March 31, 2007.

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

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 has determined there will be no impact of adopting this interpretation.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The provisions of this standard apply to other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company believes that the adoption of SFAS No. 157 will not have a material impact on the financial statements.

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 108 which provides interpretative guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a potential current year misstatement. Prior to SAB No. 108, companies used either the income statement or balance sheet approach to evaluate the materiality of statement misstatements. The income statement approach focused on current year misstatements while the balance sheet approach focused on the cumulative amount of misstatement present in the balance sheet. Misstatements that would be material under one approach could be viewed as immaterial under another approach and not be corrected. SAB No. 108 now requires that companies view financial statement misstatements as material if they are material according to either the income statement or balance sheet approach. SAB No. 108 is effective for fiscal years ending after November 15, 2006. The Company has analyzed SAB No. 108 and determined that its adoption will have no impact on the reported results of operations or financial condition.

In September 2006, the Emerging Issues Task Force (EITF) reached a final consensus on Issue 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements . The consensus stipulates that an agreement by an employer to share a portion of the proceeds of a life insurance policy with an employee during the postretirement period is a postretirement benefit arrangement required to be accounted for under SFAS No. 106 (postretirement benefit plans) or APB No. 12 (deferred compensation plan). The consensus concludes that the purchase of a split-dollar life insurance policy does not constitute a settlement; therefore, a liability should be recognized for future benefits. Issue 06-4 is effective for years beginning after December 15, 2007. Management is currently in the process of evaluating the impact of adoption of Issue 06-4.

CORTLAND BANCORP AND SUBSIDIARIES

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

(Dollars in thousands)

In September 2006, the Emerging Issues Task Force (EITF) ratified the consensus on Issue 06-5, Accounting for Purchases of Life Insurance-Determining the Amount that Could be Realized in Accordance with FASB Technical Bulletin No. 85-4. The consensus stipulates that the policy owner should consider the cash surrender value as well as any additional amounts included in the contractual terms of the policy in determining the amount recognized as an asset pursuant to FASB Technical Bulletin No. 85-4. The consensus in this Issue is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of adoption of Issue 06-5.

In October 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans. SFAS No. 158 requires an employer to recognize the funded status of each of its defined pension and postretirement benefit plans in the balance sheet, to recognize changes in the funded status in the year in which changes occur through comprehensive income, and to measure the funded status as of the balance sheet date. The requirement to recognize the funded status of benefit plans and the disclosure requirements are effective for fiscal years ending after December 15, 2006. The requirement to measure the funded status as of the date of the balance sheet is effective for fiscal years ending after December 15, 2008. The Company has determined that its adoption of SFAS No. 158 will not have a material impact on its earnings, cash flows and financial position.

In February 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 would allow the Company an irrevocable election to measure certain financial assets and liabilities at fair value, with unrealized gains and losses on the elected items recognized in earnings at each reporting period. The fair value option may only be elected at the time of initial recognition of a financial asset or financial liability or upon the occurrence of certain specified events. The election is applied on an instrument by instrument basis, with a few exceptions, and is applied only to entire instruments and not to portions of instruments. SFAS 159 also provides expanded disclosure requirements regarding the effects of electing the fair value option on the financial statements. SFAS 159 is effective prospectively for fiscal years beginning after November 15, 2007. The Company is currently evaluating this Statement and has not yet determined the financial assets and liabilities, if any, for which the fair value option would be elected or the potential impact on the consolidated financial statements, if such election were made.

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.

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 prepayment 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 March 31, 2007 and December 31, 2006. 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 March 31, 2007 and December 31, 2006 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.

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 50 basis points. At March 31, 2007, the difference between the yield on the ten-year Treasury and the three-month Treasury was a negative 39 basis points compared to a negative 31 basis points at December 31, 2006. With short-term rates exceeding longer-term rates the yield curve is inverted.

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 $14,954 for the twelve month period ending March 31, 2008.

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	March 31, 2008	Dec. 31, 2007	March 31, 2008	Dec. 31, 2007	March 31, 2008	Dec. 31, 2007
Graduated increase of +300 basis points	$ 15,287	15,357	$ 333	$ 3	2.2%	0.0%
Short term rates unchanged	14,954	15,354				
Graduated decrease of -300 basis points	14,913	15,391	(41)	37	(0.3)%	0.3%

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.

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.

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 15, 2007

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

Not applicable

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 for the Bancorp, as amended (1) Code of Regulations, Cortland Savings and Banking (2)
	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)

CORTLAND BANCORP AND SUBSIDIARIES
PART II OTHER INFORMATION (CONTINUED)

* 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; as amended on December 26, 2006, for Directors Cole, Gessner, Hoffman, Mahan, Thompson and Woofter (2) and Split Dollar Agreement and Endorsement entered into by Cortland Bancorp as of July 26, 2005 with Director Jerry A. Carleton (1)
* 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 and with James M. Gasior as of November 5, 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)

CORTLAND BANCORP AND SUBSIDIARIES
PART II OTHER INFORMATION (Continued)

*	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), as amended on December 11, 2006. (2)
*	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 15, 2006

(2) Filed previously as an Exhibit to form 10-K filed on March 15, 2007

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: May 8, 2007	/s/ Lawrence A. Fantauzzi Lawrence A. Fantauzzi President (Chief Executive Officer)
DATED: May 8, 2007	/s/ James M. Gasior James M. Gasior Secretary (Chief Financial Officer)