COBIZ FINANCIAL INC
Form 10-Q
August 11, 2008
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2008.

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transitions period from to

Commission File Number 001-15955

CoBiz Financial Inc.

(Exact name of registrant as specified in its charter)

COLORADO (State or other jurisdiction of incorporation or organization)	**84-0826324** (I.R.S. Employer Identification No.)
821 17th Street **Denver, CO** (Address of principal executive offices)	**80202** (Zip Code)

(303) 293-2265

(Registrant s telephone number, including area code)

(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 x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	o		Accelerated filer	x
Non-accelerated filer	o	(do not check if a smaller reporting company)	Smaller reporting company	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 x

There were 23,100,394 shares of the registrant s Common Stock, $0.01 par value per share, outstanding at August 5, 2008.

Table of Contents

Table of Contents

Item 1. Condensed Consolidated Financial Statements

CoBiz Financial Inc.

Condensed Consolidated Balance Sheets

June 30, 2008 and December 31, 2007

(unaudited)

(in thousands)		June 30, 2008		December 31, 2007
Assets				
Cash and due from banks	$	57,477	$	45,951
Interest bearing deposits and federal funds sold		4,690		3,675
Total cash and cash equivalents		62,167		49,626
Investments:				
Investment securities available for sale (cost of $401,798 and 379,677, respectively)		398,560		378,565
Investment securities held to maturity (fair value of $531 and 473, respectively)		432		470
Other investments		19,026		16,628
Total investments		418,018		395,663
Loans, net of allowance for loan losses of $25,727 and $20,043, respectively		1,935,450		1,826,283
Goodwill		45,785		43,386
Intangible assets, net of amortization of $2,900 and $2,511, respectively		6,039		2,112
Bank-owned life insurance		30,112		29,546
Premises and equipment, net of depreciation of $22,955 and $21,854, respectively		8,958		8,811
Accrued interest receivable		8,852		10,201
Deferred income taxes		10,911		7,723
Other		21,879		17,661
TOTAL ASSETS	$	2,548,171	$	2,391,012
Liabilities				
Deposits				
Demand		446,145		439,076
NOW and money market		626,500		631,391
Savings		10,726		11,546
Eurodollar		100,771		77,444
Certificates of deposits		467,791		583,232
Total Deposits		1,651,933		1,742,689
Securities sold under agreements to repurchase		131,717		168,336
Other short-term borrowings		479,828		197,444
Accrued interest and other liabilities		20,035		21,107
Junior subordinated debentures		72,166		72,166
TOTAL LIABILITIES	$	2,355,679	$	2,201,742
Commitments and contingencies				
Shareholders Equity				

Cumulative preferred, $0.01 par value; 2,000,000 shares authorized; None outstanding				
Common, $0.01 par value; 50,000,000 shares authorized; 23,095,394 and 22,992,756 ssued and outstanding, respectively		231		230
Additional paid-in capital		98,601		96,906
Retained earnings		94,664		92,128
Accumulated other comprehensive (loss) income, net of income tax of $(615) and $4, respectively		(1,004)		6
TOTAL SHAREHOLDERS EQUITY		192,492		189,270
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$	2,548,171	$	2,391,012

See Notes to Condensed Consolidated Financial Statements

Table of Contents

CoBiz Financial Inc.

Condensed Consolidated Statements of Income and Comprehensive Income

(unaudited)

(in thousands)	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
INTEREST INCOME:				
Interest and fees on loans	$ 30,167	$ 32,764	$ 62,442	$ 63,709
Interest and dividends on investment securities:				
Taxable securities	5,208	5,160	10,015	10,204
Nontaxable securities	31	34	62	83
Dividends on securities	173	206	351	409
Federal funds sold and other	60	122	166	238
Total interest income	35,639	38,286	73,036	74,643
INTEREST EXPENSE:				
Interest on deposits	8,613	10,681	20,152	20,106
Interest on short-term borrowings	2,564	4,491	5,193	9,013
Interest on junior subordinated debentures	966	1,409	2,217	2,804
Total interest expense	12,143	16,581	27,562	31,923
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	23,496	21,705	45,474	42,720
Provision for loan losses	5,986	1,037	11,017	1,037
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	17,510	20,668	34,457	41,683
NONINTEREST INCOME:				
Service charges	972	744	1,911	1,428
Trust and advisory fees	1,739	1,192	3,412	2,344
Insurance income	4,153	2,440	7,776	5,070
Investment banking income	3,196	959	3,489	2,382
Other income	1,510	990	2,405	1,733
Total noninterest income	11,570	6,325	18,993	12,957
NONINTEREST EXPENSE:				
Salaries and employee benefits	16,078	12,015	31,051	24,461
Occupancy expenses, premises and equipment	3,247	2,845	6,384	5,675
Amortization of intangibles	186	118	389	237
Other	2,957	2,813	6,498	5,761
Loss on sale of other assets and securities	9	214	60	256
Total noninterest expense	22,477	18,005	44,382	36,390
INCOME BEFORE INCOME TAXES	6,603	8,988	9,068	18,250
Provision for income taxes	2,420	3,328	3,290	6,707
NET INCOME	$ 4,183	$ 5,660	$ 5,778	$ 11,543
UNREALIZED APPRECIATION (DEPRECIATION) ON INVESTMENT SECURITIES AVAILABLE FOR SALE AND DERIVATIVE INSTRUMENTS , net of tax	(2,892)	(724)	(1,010)	234
COMPREHENSIVE INCOME	$ 1,291	$ 4,936	$ 4,768	$ 11,777
EARNINGS PER SHARE:				
Basic	$ 0.18	$ 0.24	$ 0.25	$ 0.49

Diluted	$ 0.18	$ 0.23	$ 0.25	$ 0.47
DIVIDENDS PER SHARE	$ 0.07	$ 0.06	$ 0.14	$ 0.12

See Notes to Condensed Consolidated Financial Statements

Table of Contents

CoBiz Financial Inc.

Condensed Consolidated Statements of Cash Flows

(unaudited)

(in thousands)	**Six months ended June 30, 2008** **2008**	**2007**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 5,778	$ 11,543
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization on investment securities	354	123
Depreciation and amortization	2,146	1,887
Amortization of net loan fees	(1,394)	(1,230)
Provision for loan and credit losses	10,667	1,037
Stock-based compensation	886	708
Federal Home Loan Bank stock dividend	(246)	(312)
Deferred income taxes	(2,510)	(963)
Excess tax benefits from stock-based compensation	(96)	(929)
Increase in cash surrender value of bank owned life insurance	(567)	(476)
Supplemental executive retirement plan	416	344
Other operating activities, net	(417)	(126)
Changes in operating assets and liabilities		
Accrued interest receivable	1,349	(632)
Other assets	(1,258)	250
Accrued interest and other liabilities	(1,228)	(1,195)
Net cash provided by operating activities	13,880	10,029
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of other investments	(2,157)	(1,515)
Proceeds from other investments	483	257
Purchase of investment securities available for sale	(101,146)	(157,517)
Maturities of investment securities held to maturity	38	55
Maturities of investment securities available for sale	78,629	160,943
Proceeds from sale of investment securities		1,053
Net cash paid in earn-outs		(438)
Purchase of Bernard Dietrich and Associates	(6,781)	
Proceeds from sales of other real estate owned	262	
Loan originations and repayments, net	(121,372)	(133,969)
Purchase of premises and equipment	(1,788)	(1,272)
Other investing activities, net	3	80
Net cash used in investing activities	(153,829)	(132,323)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand, NOW, money market, eurodollar and savings accounts	24,685	30,472
Net (decrease) increase in certificates of deposits	(115,497)	66,719
Net increase in short term borrowings	282,384	17,908
Net (decrease) increase in securities sold under agreements to repurchase	(36,619)	16,640
Proceeds from issuance of common stock	714	22,596
Dividends paid on common stock	(3,226)	(2,862)
Excess tax benefit on stock option exercises	96	929
Other financing activities, net	(47)	
Net cash provided by financing activities	152,490	152,402

NET INCREASE IN CASH AND CASH EQUIVALENTS		12,541		30,108
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		49,626		38,976
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	62,167	$	69,084

See Notes to Condensed Consolidated Financial Statements

Table of Contents

CoBiz Financial Inc.

Notes to Condensed Consolidated Financial Statements

(unaudited)

1. Condensed Consolidated Financial Statements

The accompanying unaudited condensed consolidated financial statements of CoBiz Financial Inc. (Parent), and its wholly owned subsidiaries: CoBiz Bank (Bank); CoBiz ACMG, Inc.; CoBiz Insurance, Inc.; CoBiz GMB, Inc.; GMB Equity Partners; Financial Designs Ltd. (FDL); and Wagner Investment Management, Inc. (Wagner), all collectively referred to as the Company or CoBiz, conform to accounting principles generally accepted in the United States of America for interim financial information and prevailing practices within the banking industry. The Bank operates in its Colorado market areas under the name Colorado Business Bank (CBB) and in its Arizona market areas under the name Arizona Business Bank (ABB).

The Company s name was changed from CoBiz Inc. to CoBiz Financial Inc. at the Annual Meeting of Shareholders held on May 17, 2007.

The Bank is a commercial banking institution with eight locations in the Denver metropolitan area; two locations in Boulder; two near Vail, Colorado; and seven in the Phoenix metropolitan area. In April 2007, the Bank converted from a national bank charter to a state bank charter. As a state chartered bank, deposits are insured by the Bank Insurance Fund of the FDIC and the Bank is subject to supervision, regulation and examination by the Federal Reserve, Colorado Division of Banking and the FDIC. Pursuant to such regulations, the Bank is subject to special restrictions, supervisory requirements and potential enforcement actions. CoBiz ACMG, Inc. provides investment management services to institutions and individuals through its subsidiary Alexander Capital Management Group, LLC (ACMG). FDL provides wealth transfer, employee benefits consulting, insurance brokerage and related administrative support to individuals, families and employers. CoBiz Insurance, Inc. provides commercial and personal property and casualty insurance brokerage, as well as risk management consulting services to small and medium-sized businesses and individuals. On January 2, 2008, CoBiz Insurance, Inc. acquired substantially all the assets of Bernard Dietrich & Associates (BDA), a commercial and personal property and casualty insurance brokerage serving the Phoenix, Arizona market. CoBiz Insurance, Inc. will operate in the Denver metropolitan market as CoBiz Insurance Colorado and in the Phoenix metropolitan market as CoBiz Insurance Arizona. CoBiz GMB, Inc. provides investment banking services to middle-market companies through its wholly owned subsidiary, Green Manning & Bunch, Ltd. (GMB). Wagner was acquired on December 31, 2007, to supplement the investment services currently offered by ACMG. Wagner focuses on developing and delivering a proprietary investment approach with a growth bias.

All intercompany accounts and transactions have been eliminated. These financial statements and notes thereto should be read in conjunction with, and are qualified in their entirety by, our Annual Report on Form 10-K for the year ended December 31, 2007, as filed with the U.S. Securities and Exchange Commission (SEC).

The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting only of normally recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three or six months ended June 30, 2008 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2008.

2. Recent Accounting Pronouncements

On January 1, 2007, the Company adopted Emerging Issues Task Force (EITF) 06-5, *Accounting for Purchases of Life Insurance Determining the Amount That Could be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance* (EITF 06-5). EITF 06-5, addresses various issues in determining the amount that could be realized under an insurance contract. Upon adoption in 2007, the Company recorded a cumulative effect adjustment of approximately $134,000 that was charged to retained earnings to reduce the amount that can be realized on insurance contracts.

On January 1, 2008, the Company adopted EITF 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements* (EITF 06-4). The ratified final consensus on this issue requires companies to recognize an obligation for the future post-retirement benefits

Table of Contents

provided to employees in the form of death benefits to be paid to their beneficiaries through endorsement split-dollar policies carried in Bank-Owned Life Insurance (BOLI), the effects of which are to be recognized through either (a) a change in accounting principle through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption, or (b) a change in accounting principle through retrospective application to all prior periods. Upon adoption, the Company recorded a cumulative effect adjustment of approximately $16,000 that was charged to retained earnings when it established the obligation for future post-retirement benefits relating to the Company s applicable endorsement split-dollar life insurance arrangements.

On January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. See Note 11 for additional discussion on fair value measurements.

On January 1, 2008, the Company adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 permits entities to choose to measure certain financial assets and liabilities at fair value at specified election dates. For financial instruments elected to be accounted for at fair value, an entity will report the unrealized gains and losses in earnings. The effect of the first remeasurement to fair value is to be recognized as a cumulative-effect adjustment to the opening balance of retained earnings. The Company has not elected the fair value option for any financial instruments since the adoption on January 1, 2008 and there was no impact on the consolidated financial statements relating to the adoption of SFAS 159.

In December 2007, the FASB issued SFAS No. 141, *Business Combinations: (Revised 2007)* (SFAS 141R). SFAS 141R is relevant to all transactions or events in which one entity obtains control over one or more other businesses. SFAS 141R requires an acquirer to recognize any assets and non-controlling interest acquired and liabilities assumed to be measured at fair value as of the acquisition date. Liabilities related to contingent consideration are recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of the consideration may be resolved beyond a reasonable doubt. This revised approach replaces SFAS 141 s cost allocation process in which the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their respective fair value. SFAS 141R requires any acquisition-related costs and restructuring costs to be expensed as incurred as opposed to allocating such costs to the assets acquired and liabilities assumed as previously required by SFAS 141. Under SFAS 141R, an acquirer recognizes liabilities for a restructuring plan in purchase accounting only if the requirements of SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities,* are met. SFAS 141R allows for the recognition of pre-acquisition contingencies at fair value only if these contingencies are likely to materialize. If this criterion is not met at the acquisition date, then the acquirer accounts for the non-contractual contingency in accordance with recognition criteria set forth under SFAS 5, *Accounting for Contingencies*, in which case no amount should be recognized in purchase accounting. SFAS 141R is effective as of the beginning of an entity s first fiscal year that begins after December 15, 2008. The Company will evaluate the impact SFAS 141R will have on its consolidated financial statements if an acquisition occurs.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 5* (SFAS 160). This Statement amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity and should be reported as equity on the financial statements. SFAS 160 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. Furthermore, disclosure of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest is required on the face of the financial statements. SFAS 160 is effective as of the beginning of an entity s first fiscal year that begins after December 15, 2008. The Company is evaluating the impact, if any, SFAS 160 will have on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative instruments and Hedging Activities an amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 enhances the required disclosures under SFAS 133 in order to provide the investing community additional transparency in an entity s financial statements and to more adequately disclose the impact investments in derivative instruments and use of hedging have on financial position, operating results and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008 with early application allowed. The Company is currently evaluating the impact SFAS 161 will have on its disclosures as the Bank subsidiary utilizes a hedging strategy to manage its exposure to interest rate changes as well as offering certain derivative products to its customers.

Table of Contents

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS 162). SFAS 162 identifies the sources of accounting principles to be used in the preparation of nongovernmental entity financial statements and reflects the FASB s belief that the responsibility for selecting the appropriate and relevant accounting principles rests with the entity. The FASB does not expect SFAS 162 to change current practice but in the rare circumstance there is a change from current practice, the statement includes transition provisions. This statement is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. The Company does not expect the guidance in this standard to have a significant impact on its consolidated financial statements.

In June 2008, the FASB issued FASB Staff Position (FSP) EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities.* This FSP gives guidance on the computation of earnings per share and the impact of share-based instruments that contain certain nonforfeitable rights to dividends or dividend equivalents. The FSP is effective for fiscal years beginning after December 31, 2008 and early application is prohibited. The Company is evaluating the impact, if any, the FSP will have on its consolidated financial statements.

3. Acquisitions

Wagner Investment Management, Inc. On December 31, 2007, the Company acquired Wagner, an SEC-registered investment advisor located in Denver, Colorado. The acquisition was accounted for using the purchase method of accounting. The acquisition of Wagner was completed through the purchase of all of Wagner s common stock as of the purchase date. At December 31, 2007, the Company had preliminarily allocated $3,198,000 of the purchase price to goodwill. In the first quarter of 2008, the Company allocated $1,116,000 out of goodwill and into certain intangible assets consisting of a customer list, trademark and a lease intangible. An adjustment of $10,000 related to direct acquisition costs was also allocated out of goodwill. The customer list and the lease intangible will be amortized over 12 years and two years (the remaining term of the lease), respectively. The trademark will be evaluated for impairment and will not be amortized.

Bernard Dietrich and Associates, Inc. On January 2, 2008, the Company acquired substantially all the assets of Bernard Dietrich & Associates, Inc. (BDA), a provider of commercial and personal property and casualty insurance brokerage, and risk management consulting services located in Phoenix, Arizona. The results of operations of BDA have been included in the condensed consolidated statement of income beginning January 2, 2008.

The initial purchase price was $6,781,000, consisting of $6,750,000 in cash and $31,000 in direct acquisition costs. A deposit of $750,000 was also put into escrow for potential additional consideration. The terms of the BDA asset purchase agreement provide for deferred payments for each of the calendar years 2009 and 2010 to be paid to the former shareholders of BDA in proportion to their respective ownership immediately prior to the acquisition. The deferred payments are payable in cash from the escrowed funds of $750,000 and any interest earned. The deferred payments will be a maximum of $375,000 and $750,000 for 2009 and 2010, respectively, with the aggregate amount of total deferred payments during this two-year period capped at $750,000. The yearly deferred payments will be based on maintaining a revenue threshold as defined in the BDA asset purchase agreement. The deferred payments will be treated as additional cost of the acquisition and recorded as goodwill in accordance with EITF Issue No. 95-08, *Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination*.

The Company has allocated $3,525,000 of the purchase price to goodwill, which is expected to be tax deductible, $3,200,000 to a customer list intangible asset and $56,000 to other miscellaneous assets. The customer list will be amortized over 15 years.

4. Earnings per Common Share

The weighted average shares outstanding used in the calculation of basic and diluted earnings per share are as follows:

Table of Contents

	Three months ended June 30, 2008	2007	Six months ended June 30, 2008	2007
Weighted average shares outstanding - basic earnings per share	23,067,804	23,954,917	23,042,556	23,735,310
Effect of dilutive securities	138,917	549,360	201,262	620,255
Weighted average shares outstanding - diluted earnings per share	23,206,721	24,504,277	23,243,818	24,355,565

For the three and six months ended June 30, 2008, 1,714,204 and 1,472,398 options, respectively, were excluded from the earnings per share computation solely because their effect was anti-dilutive. For the three and six months ended June 30, 2007, 823,204 and 620,806 options, respectively, were excluded from the earnings per share computation solely because their effect was anti-dilutive.

5. Comprehensive Income

Comprehensive income is the total of (1) net income plus (2) all other changes in net assets arising from non-owner sources, which are referred to as other comprehensive income. Presented below are the changes in other comprehensive income for the periods indicated.

(in thousands)	Three months ended June 30, 2008	2007	Six months ended June 30, 2008	2007
Other comprehensive items:				
Unrealized loss on available for sale securities, net of reclassification to operations of $(8) and $215 for the three months ended June 30 and $43 and $253 for the six months ended June 30	$ (3,684)	$ (1,150)	$ (2,124)	$ (144)
Unrealized (loss) gain on derivative securities, net of reclassification to operations of $571 and $(461) for the three months ended June 30 and $884 and $918 for the six months ended June 30	(980)	(18)	495	521
Tax benefit (expense) related to items of other comprehensive income	1,772	444	619	(143)
Other comprehensive (loss) income, net of tax	$ (2,892)	$ (724)	$ (1,010)	$ 234

6. Goodwill and Intangible Assets

A summary of goodwill, preliminary adjustments to goodwill and total assets by operating segment at June 30, 2008 is noted below. See Note 3 for discussion of acquisitions and adjustments.

7

Table of Contents

(in thousands)	December 31, 2007	Goodwill Acquisitions and adjustments	June 30, 2008	Total assets June 30, 2008
Commercial banking	$ 15,348	$	$ 15,348	$ 2,501,356
Investment banking	5,279		5,279	6,731
Investment advisory and trust	7,644	(1,126)	6,518	9,282
Insurance	15,115	3,525	18,640	29,458
Corporate support and other				1,344
Total	$ 43,386	$ 2,399	$ 45,785	$ 2,548,171

At June 30, 2008 and December 31, 2007, the Company s intangible assets and related accumulated amortization consisted of the following:

	Amortizing		Non-amortizing	
(in thousands)	Customer contracts, lists and relationships	Other	Trademark	Total
December 31, 2007	$ 2,100	$ 12	$	$ 2,112
Acquisitions and adjustments:				
BDA	3,200			3,200
Wagner	783	64	269	1,116
Amortization	(367)	(22)		(389)
June 30, 2008	$ 5,716	$ 54	$ 269	$ 6,039

The Company recorded amortization expense of $389,000 during the six months ended June 30, 2008, compared to $237,000 in the same period of 2007. Amortization expense on intangible assets for each of the five succeeding years (excluding $338,000 to be recognized for the remaining six months of fiscal 2008) is estimated in the following table:

(in thousands)	
2009	$ 674
2010	642
2011	638
2012	638
2013	426
Total	$ 3,018

7. Derivatives

A summary of outstanding derivatives at June 30, 2008 and 2007 is as follows:

	At June 30,					
	2008			2007		
(in thousands)	Notional		Estimated fair value	Notional		Estimated fair value
Asset/liability management hedges:						
Cash flow hedge - interest rate swap	110,000	$	1,606	135,000	$	(1,263)
Customer accomodation derivatives:						
Interest rate swap	37,162	$	(1,086)	20,636	$	(155)
Reverse interest rate swap	37,162		1,260	20,636		155

Table of Contents

8. Junior Subordinated Debentures

A summary of the outstanding junior subordinated debentures at June 30, 2008 is as follows:

(in thousands)		Junior Subordinated Debentures	Interest Rate	Maturity Date	Earliest Call Date
CoBiz Statutory Trust I	$	20,619	3-month LIBOR+ 2.95%	September 17, 2033	September 17, 2008
CoBiz Capital Trust II		30,928	3-month LIBOR+ 2.60%	July 23, 2034	July 23, 2009
CoBiz Capital Trust III		20,619	3-month LIBOR+ 1.45%	September 30, 2035	September 30, 2010
	$	72,166			

9. Share-Based Compensation Plans

During the first six months of 2008 and 2007, the Company recognized compensation expense, net of estimated forfeitures, of $886,000 and $708,000 for stock-based compensation awards for which the requisite service was rendered in the period. Estimated forfeitures are periodically evaluated based on historical and expected forfeiture behavior.

The Company uses the Black-Scholes model to estimate the fair value of stock options using various interest, dividend, volatility and expected life assumptions. Expected life is evaluated on an ongoing basis using historical and expected exercise behavior assumptions.

A summary of changes in option awards for the six months ended June 30, 2008, is as follows:

		Shares		Weighted average exercise price
Outstanding	December 31, 2007	2,201,722	$	14.85
Granted		338,251		12.47
Exercised		62,686		6.26
Forfeited		100,842		17.50
Outstanding	June 30, 2008	2,376,445	$	14.62
Exercisable	June 30, 2008	1,650,408	$	13.62

The weighted average grant date fair value of options granted during the six months ended June 30, 2008 was $2.56.

A summary of changes in stock awards for the six months ended June 30, 2008, is as follows:

	Shares	grant date fair value
Nonvested at December 31, 2007	2,000	$ 21.07
Granted		
Vested	400	21.07
Forfeited		
Nonvested at June 30, 2008	1,600	$ 21.07

Table of Contents

At June 30, 2008, there was $2,728,367 of total unrecognized compensation expense related to non-vested share based compensation arrangements granted under the Plans. The cost is expected to be recognized over a weighted average period of 2.01 years.

10. Segments

The Company s principal areas of activity consist of Commercial Banking, Investment Banking, Investment Advisory and Trust, Insurance, and Corporate Support and Other.

The CBB and ABB banking markets are presented as a single segment, commercial banking.

The Investment Banking segment consists of the operations of GMB, which provides middle-market companies with merger and acquisition advisory services, institutional private placements of debt and equity, and other strategic financial advisory services.

The Investment Advisory and Trust segment consists of the operations of ACMG, Wagner (acquired on December 31, 2007) and CoBiz Trust. ACMG and Wagner are SEC-registered investment management firms that manage stock and bond portfolios for individuals and institutions. CoBiz Trust offers wealth management and investment advisory services, fiduciary (trust) services, and estate administration services.

The Insurance segment includes the activities of FDL and CoBiz Insurance, Inc. which operates in metro Denver and metro Phoenix markets as CoBiz Insurance Colorado and Arizona, respectively. FDL provides employee benefits consulting and brokerage, wealth transfer planning and preservation for high-net-worth individuals, and executive benefits and compensation planning. FDL represents individuals and companies in the acquisition of institutionally priced life insurance products to meet wealth transfer and business needs. Employee benefit services include assisting companies in creating and managing benefit programs such as medical, dental, vision, 401(k), disability, life and cafeteria plans. CoBiz Insurance, Inc. provides commercial and personal property and casualty insurance brokerage, as well as risk management consulting services to individuals and small and medium-sized businesses. The majority of the revenue for both FDL and CoBiz Insurance, Inc. is derived from insurance product sales and referrals, and are paid by third-party insurance carriers. Insurance commissions are normally calculated as a percentage of the premium paid by our clients to the insurance carrier, and are paid to us by the insurance carrier for distributing and servicing their insurance products.

Corporate Support and Other includes activities that are not directly attributable to the other reportable segments, including the activities of the Parent.

The financial information for each business segment reflects that information which is specifically identifiable or which is allocated based on an internal allocation method. Results of operations and selected financial information by operating segment are as follows:

10

Table of Contents

(in thousands)	Commercial Banking	Investment Banking	Three months ended June 30, 2008 Investment Advisory and Trust	Insurance	Corporate Support and Other	Consolidated
Income Statement						
Total interest income	$ 35,597	$ 12	$	$	$ 30	$ 35,639
Total interest expense	10,991		4	2	1,146	12,143
Net interest income	**24,606**	**12**	**(4)**	**(2)**	**(1,116)**	**23,496**
Provision for loan losses	5,986					5,986
Net interest income after provision	**18,620**	**12**	**(4)**	**(2)**	**(1,116)**	**17,510**
Noninterest income	2,502	3,196	1,739	4,153	(20)	11,570
Noninterest expense	7,546	1,679	1,703	3,839	7,710	22,477
Income before income taxes	**13,576**	**1,529**	**32**	**312**	**(8,846)**	**6,603**
Provision for income taxes	5,031	588	22	130	(3,351)	2,420
Net income before management fees and overhead allocations	**$ 8,545**	**$ 941**	**$ 10**	**$ 182**	**$ (5,495)**	**$ 4,183**
Management fees and overhead allocations, net of tax	3,886	40	89	99	(4,114)	
Net income	**$ 4,659**	**$ 901**	**$ (79)**	**$ 83**	**$ (1,381)**	**$ 4,183**

	Commercial Banking	Investment Banking Services	Six months ended June 30, 2008 Investment Advisory and Trust	Insurance	Corporate Support and Other	Consolidated
Income Statement						
Total interest income	$ 72,944	$ 19	$ 3	$ 4	$ 66	$ 73,036
Total interest expense	24,889		5	5	2,663	27,562
Net interest income	**48,055**	**19**	**(2)**	**(1)**	**(2,597)**	**45,474**
Provision for loan and credit losses	11,017					11,017
Net interest income after provision	**37,038**	**19**	**(2)**	**(1)**	**(2,597)**	**34,457**
Noninterest income	4,262	3,489	3,415	7,776	51	18,993
Noninterest expense	15,429	2,606	3,398	7,249	15,700	44,382
Income before income taxes	**25,871**	**902**	**15**	**526**	**(18,246)**	**9,068**
Provision for income taxes	9,606	351	26	223	(6,916)	3,290
Net income before management fees and overhead allocations	**16,265**	**551**	**(11)**	**303**	**(11,330)**	**5,778**
Management fees and overhead allocations, net of tax	8,160	89	175	220	(8,644)	
Net income	**$ 8,105**	**$ 462**	**$ (186)**	**$ 83**	**$ (2,686)**	**$ 5,778**
			At June 30, 2008			
Balance Sheet Total assets	2,501,356	6,731	9,282	29,458	1,344	2,548,171

Table of Contents

(in thousands)	Commercial Banking	Investment Banking	Three months ended June 30, 2007 Investment Advisory and Trust	Insurance	Corporate Support and Other	Consolidated
Income Statement						
Total interest income	$ 38,217	$ 27	$ 1	$ 1	$ 40	$ 38,286
Total interest expense	15,174			1	1,406	16,581
Net interest income	**23,043**	**27**	**1**		**(1,366)**	**21,705**
Provision for loan losses	1,037					1,037
Net interest income after provision	**22,006**	**27**	**1**		**(1,366)**	**20,668**
Noninterest income	1,723	959	1,192	2,440	11	6,325
Noninterest expense	6,090	998	1,026	2,468	7,423	18,005
Income before income taxes	**17,639**	**(12)**	**167**	**(28)**	**(8,778)**	**8,988**
Provision for income taxes	6,567	(2)	86	(4)	(3,319)	3,328
Net income before management fees and overhead allocations	**11,072**	**(10)**	**81**	**(24)**	**(5,459)**	**5,660**
Management fees and overhead allocations, net of tax	3,890	52	64	110	(4,116)	
Net income	**$ 7,182**	**$ (62)**	**$ 17**	**$ (134)**	**$ (1,343)**	**$ 5,660**

	Commercial Banking	Investment Banking	Six months ended June 30, 2007 Investment Advisory and Trust	Insurance	Corporate Support and Other	Consolidated
Income Statement						
Total interest income	$ 74,494	$ 66	$ 1	$ 2	$ 80	$ 74,643
Total interest expense	29,122			3	2,798	31,923
Net interest income	**45,372**	**66**	**1**	**(1)**	**(2,718)**	**42,720**
Provision for loan and credit losses	1,066				(29)	1,037
Net interest income after provision	**44,306**	**66**	**1**	**(1)**	**(2,689)**	**41,683**
Noninterest income	3,149	2,382	2,344	5,070	12	12,957
Noninterest expense	12,560	2,518	2,026	4,926	14,360	36,390
Income before income taxes	**34,895**	**(70)**	**319**	**143**	**(17,037)**	**18,250**
Provision for income taxes	12,896	(21)	137	74	(6,379)	6,707
Net income before management fees and overhead allocations	**21,999**	**(49)**	**182**	**69**	**(10,658)**	**11,543**
Management fees and overhead allocations, net of tax	7,633	96	121	215	(8,065)	
Net income	**$ 14,366**	**$ (145)**	**$ 61**	**$ (146)**	**$ (2,593)**	**$ 11,543**

			At June 30, 2007			
Balance Sheet Total assets	2,241,895	7,522	6,199	22,207	2,289	2,280,112

11. Fair Value

On January 1, 2008, the Company adopted SFAS 157, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; accordingly, the standard does not require any new fair value measurements of reported balances. The effective date of SFAS 157 for all nonrecurring fair value measurements of nonfinancial assets and nonfinancial liabilities has been delayed until fiscal years beginning after November 15, 2008. Accordingly, the Company will apply the requirements of SFAS 157 to the evaluation of goodwill impairment, indefinite-lived intangible assets and long-lived assets measured at fair value for impairment assessment beginning January 1, 2009.

SFAS 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or liability. As a basis for considering market participant assumptions in fair value measurements, SFAS 157 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity s own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.

Table of Contents

Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity s own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Company s financial assets and financial liabilities carried at fair value effective January 1, 2008.

Available for sale securities At June 30, 2008, the Company holds, as part of its investment portfolio, available for sale securities reported at fair value consisting of mortgage-backed securities, trust preferred securities, and obligations of states and political subdivisions. The values of these securities are determined using widely accepted valuation techniques including matrix pricing and broker-quote based applications. Inputs include benchmark yields, reported trades, broker-dealer quotes, issuer spreads, prepayment speeds and other relevant items. As a result, the Company has determined that these valuations fall within Level 2 of the fair value hierarchy. The Company also holds trust preferred securities that are recorded at fair value based on quoted market prices. As a result, the Company has determined that the valuation of its trust preferred securities falls within Level 1 of the fair value hierarchy.

Derivative financial instruments Currently, the Company uses interest rate swaps as part of its cash flow strategy to manage its interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including strike price, forward rates, volatility estimates, and discount rates. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves.

To comply with the provisions of SFAS 157, credit valuation adjustments are incorporated into the valuation to appropriately reflect both the Company s own nonperformance risk and the respective counterparty s nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings and thresholds.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, at June 30, 2008, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

Private equity investments The valuation of nonpublic private equity investments requires significant management judgment due to the absence of quoted market prices, inherent lack of liquidity and the long-term nature of such assets. The carrying values of private equity investments are adjusted either upwards or downwards from the transaction price to reflect expected exit values as evidenced by financing and sale transactions with third parties, or when determination of a valuation adjustment is confirmed through ongoing reviews by management. A variety of factors are reviewed and monitored to assess positive and negative

Table of Contents

changes in valuation including, but not limited to, current operating performance and future expectations of the particular investment, industry valuations of comparable public companies, changes in market outlook and the third-party financing environment. In determining valuation adjustments resulting from the investment review process, emphasis is placed on current company performance and market conditions. As a result, the Company has determined that private equity investments are classified in Level 3 of the fair value hierarchy. The value of private equity investments was not material at June 30, 2008.

Impaired Loans Certain collateral-dependent impaired loans are reported at the fair value of the underlying collateral. Impairment is measured based on the fair value of the collateral, which is typically derived from appraisals that take into consideration prices in observed transactions involving similar assets and similar locations, in accordance with SFAS 114. The fair value of other impaired loans is measured using a discounted cash flow analysis.

The following table presents the Company s assets measured at fair value on a recurring basis at June 30, 2008, aggregated by the level in the fair value hierarchy within which those measurements fall.

(in thousands)	Balance at June 30, 2008	Fair Value Measurements using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Available for sale securities:				
Mortgage-backed securities	$ 383,875	$	$ 383,875	$
Trust preferred securites	11,263	11,263		
Obligations of states and political subdivisions	3,422		3,422	
Total available for sale securities	$ 398,560	$ 11,263	$ 387,297	$
Derivatives				
Cash flow hedge - interest rate swap	$ 1,606	$	$ 1,606	$
Reverse interest rate swap	1,260		1,260	
Total derivative assets	$ 2,866	$	$ 2,866	$
Liabilities				
Derivatives				
Interest rate swap	$ 1,086	$	$ 1,086	$

Fair value is used on a nonrecurring basis to evaluate certain financial assets and financial liabilities in specific circumstances. The following table presents the Company s assets measured at fair value on a nonrecurring basis at June 30, 2008, aggregated by the level in the fair value hierarchy within which those measurements fall.

(in thousands)	Balance at June 30, 2008	Fair Value Measurements using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

Loans (impaired)	$	7,913	$		$	6,565	$	1,348
Other real estate owned		2,580				2,580		

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

This discussion should be read in conjunction with our condensed consolidated financial statements and notes thereto included in this Form 10-Q. Certain terms used in this discussion are defined in the notes to these financial statements. For a description of our accounting policies, see Note 1 of Notes to Consolidated Financial Statements included in our Form 10-K for the year ended December 31, 2007. For a discussion of the segments included in our principal activities, see Note 10 to these financial statements.

Table of Contents

Executive Summary

The Company is a financial holding company that offers a broad array of financial service products to its target market of small and medium-sized businesses and high-net-worth individuals. Our operating segments include commercial banking; investment banking; investment advisory and trust; and insurance.

Earnings are derived primarily from our net interest income, which is interest income less interest expense, and noninterest income earned from our fee-based business lines and banking service fees, offset by noninterest expense. As the majority of our assets are interest-earning and our liabilities are interest-bearing, changes in interest rates impact our net interest margin, the largest component of our operating revenue (which is defined as net interest income plus noninterest income). We manage our interest-earning assets and interest-bearing liabilities to reduce the impact of interest rate changes on our operating results. We have also focused on reducing our dependency on our net interest margin by increasing noninterest income.

Our Company has focused on developing an organization with personnel, management systems and products that will allow us to compete effectively and position us for growth. The cost of this process relative to our size has been high. In addition, we have operated with excess capacity during the start-up phases of various projects. As a result, relatively high levels of noninterest expense have adversely affected our earnings over the past several years. Salaries and employee benefits comprised most of this overhead category. However, we believe that our compensation levels have allowed us to recruit and retain a highly qualified management team capable of implementing our business strategies. We believe our compensation policies, which include the granting of options to purchase common stock to many employees and the offering of an employee stock purchase plan, have highly motivated our employees and enhanced our ability to maintain customer loyalty and generate earnings.

Financial and Operational Highlights

- Net income for the three and six months ended June 30, 2008 was $4.2 million and $5.8 million respectively, compared to $5.7 million and $11.5 million for the same periods in 2007.

- Diluted earnings per share for the three and six months ended June 30, 2008 were $0.18 and $0.25, compared to $0.23 and $0.47 for the same periods in 2007.

- Net interest income on a tax-equivalent basis for the three and six months ended June 30, 2008 increased to $23.7 million and $45.8 million respectively, compared to $21.8 million and $43.0 million for the same periods in 2007.

- The net interest margin on a tax-equivalent basis was 4.11% and 4.06% for the three and six months ended June 30, 2008, respectively, compared to 4.32% and 4.35% for the same periods in 2007.

- Gross loans increased $114.9 million from December 31, 2007, or 12.5% on an annualized basis.

- Provision for loan and credit losses for the three and six months ended June 30, 2008, were $5.6 million and $10.7 million compared to $0.8 million and $1.0 million for the comparable periods in 2007.

- Net loan charge-offs totaled $5.3 million for the six months ended June, 2008, or 0.57% of average loans during the period (annualized), compared to 0.01% for the same period in 2007.

- Nonperforming assets increased to $22.8 million or 0.89% of total assets at June 30, 2008, compared to $3.5 million or 0.15% of total assets at December 31, 2007.

- Investment Banking income for the three and six months ended June 30, 2008 totaled $3.2 million and $3.5 million respectively, compared to $1.0 million and $2.4 million for the same periods in 2007.

- Allowance for loan and credit losses increased to 1.32% of total loans at June 30, 2008, compared to 1.16% for the same period in 2007.

Table of Contents

Critical Accounting Policies

The Company s discussion and analysis of its financial condition and results of operations are based upon the Company s condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-Q. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. In making those critical accounting estimates, we are required to make assumptions about matters that are highly uncertain at the time of the estimate. Different estimates we could reasonably have used, or changes in the assumptions that could occur, could have a material effect on our financial condition or results of operations. A description of our critical accounting policies was provided in the Management s Discussion and Analysis of Financial Condition and Results of Operation section of our Annual Report on Form 10-K for the year ended December 31, 2007. With the exception of the adoption of SFAS 157 (see discussion at Note 11 to the Condensed Consolidated Financial Statements), there have been no changes in our critical accounting policies and no other significant changes to the assumptions and estimates related to them.

Financial Condition

Total assets were $2.5 billion at June 30, 2008, an increase of $157.2 million since December 31, 2007, relating primarily to growth in the loan and investment portfolios.

Investments. Investments increased $22.4 million from $395.7 million at December 31, 2007 to $418.0 million at June 30, 2008, primarily the result of purchases (net of paydowns) of $58.8 million of high-grade government-backed mortgage backed securities offset by $36.5 million of maturities of short-term government agency bonds. The Company manages its investment portfolio to provide interest income and to meet the collateral requirements for public deposits, our customer repurchase program and wholesale borrowings. Investments comprised 16.4% of total assets at June 30, 2008 and 16.5% at December 31, 2007.

Loans. Gross loans increased by $114.9 million to $1.96 billion as of June 30, 2008, from $1.85 billion at December 31, 2007. The increase in loans is primarily due to growth of $69.7 million in the real estate portfolio and growth of $41.7 million growth in the commercial portfolio. Approximately 88% of the year-to-date loan growth has come from the Colorado market.

	June 30, 2008		December 31, 2007		June 30, 2007	
(in thousands)	Amount	% of Portfolio	Amount	% of Portfolio	Amount	% of Portfolio
LOANS						
Commercial	$ 618,677	32.0%	$ 576,959	31.6%	$ 513,817	30.9%
Real Estate - mortgage	929,949	48.0%	874,226	47.9%	788,212	47.5%
Real Estate - construction	323,554	16.7%	309,568	17.0%	305,525	18.4%
Consumer	76,457	4.0%	71,422	3.9%	58,749	3.5%
Other	12,540	0.6%	14,151	0.8%	13,462	0.8%
Gross loans	1,961,177	101.3%	1,846,326	101.1%	1,679,765	101.1%

Less allowance for loan losses		(25,727)	(1.3)%		(20,043)	(1.1)%		(18,858)	(1.1)%
Net loans	$	1,935,450	100.0%	$	1,826,283	100.0%	$	1,660,907	100.0%

Goodwill. Goodwill increased by $2.4 million to $45.8 million at June 30, 2008, from $43.4 million at December 31, 2007. Goodwill was increased by $3.5 million related to the BDA asset acquisition and offset by a decrease of $1.1 million in adjustments related to the reclassification of intangible assets on the Wagner acquisition. Goodwill is subject to purchase price allocation adjustments for one year following an acquisition.

Accrued Interest Receivable. Accrued interest receivable decreased by $1.3 million to $8.9 million at June 30, 2008, from $10.2 million at December 31, 2007. The decrease is related to the collection of accrued interest on matured agency debentures and a decrease in the yield on the loan portfolio.

Deferred Income Taxes. Deferred income taxes increased $3.2 million to $10.9 million at June 30, 2008, from $7.7 million at December 31, 2007. The increase was primarily related to the $2.1 million tax effect of the provision for loan and credit losses (net of charge-offs and recoveries), the $0.6 million tax effect of unrealized gains recognized in other comprehensive income and $0.3 million tax effect of share-based compensation expense.

Other Assets. Other Assets increased $4.2 million to $21.9 million at June 30, 2008, from $17.7 million at December 31, 2007. Contributing to the increase was the foreclosure on $2.6 million real property (OREO), $1.0

Table of Contents

million in accounts receivable (primarily due to the acquisitions of BDA and Wagner) and a $0.5 million increase in the fair value of interest rate swaps.

Deposits. Total deposits decreased by $90.8 million during the six months ending June 30, 2008 to $1.65 billion compared to $1.74 billion at December 31, 2007. The decrease is primarily due to a $115.4 million net decline in the CD portfolio of which $124.4 related to brokered CDs as the Company shifted to other wholesale borrowing sources. The Eurodollar deposits continue to draw new funds with growth of $23.3 to $100.8 million at June 30, 2008. Demand deposit, money market and savings accounts at June 30, 2008 were relatively stable compared to December 31, 2007. Core-deposit growth continues to be a challenge due to competition from other banks and financial service providers as well as current economic conditions.

	June 30, 2008		December 31, 2007		June 30, 2007	
(in thousands)	**Amount**	**% of Portfolio**	**Amount**	**% of Portfolio**	**Amount**	**% of Portfolio**
DEPOSITS AND CUSTOMER REPURCHASE AGREEMENTS						
NOW and money market	$ 626,500	35.1%	$ 631,391	33.0%	$ 587,272	32.3%
Savings	10,726	0.6%	11,546	0.6%	11,290	0.6%
Eurodollar	100,771	5.6%	77,444	4.1%	0	0.0%
Certificates of deposits under $100,000	105,400	5.9%	126,478	6.6%	127,882	7.0%
Certificates of deposits $100,000 and over	362,391	20.3%	456,754	23.9%	387,497	21.3%
Total interest-bearing deposits	1,205,788	67.6%	1,303,613	68.2%	1,113,941	61.3%
Noninterest-bearing demand deposits	446,145	25.0%	439,076	23.0%	459,743	25.3%
Customer repurchase agreements	131,717	7.4%	168,336	8.8%	244,257	13.4%
Total deposits and customer repurchase agreements	$ 1,783,650	100.0%	$ 1,911,025	100.0%	$ 1,817,941	100.0%

Securities Sold Under Agreements to Repurchase. Securities sold under agreement to repurchase are transacted with customers as a way to enhance our customers interest-earning ability. Management does not consider customer repurchase agreements to be a wholesale funding source, but rather an additional treasury management service provided to our customer base. Our customer repurchase agreements are based on an overnight investment sweep that can fluctuate based on our customers operating account balances. Securities sold under agreements to repurchase decreased $36.6 million, partially due to the migration of funds to the Eurodollar sweep product that offers a higher interest rate.

Other Short-Term Borrowings. Other short-term borrowings increased $282.4 million to $479.8 million at June 30, 2008, from $197.4 million at December 31, 2007. Other short-term borrowings consist of federal funds purchased, overnight and term borrowings from the Federal Home Loan Bank (FHLB), advances on a revolving line-of-credit and short-term borrowings from the U.S. Treasury. The increase in other short-term borrowings is primarily due to a shift from brokered CDs to federal funds purchased and FHLB advances and growth in the loan portfolio. Other short-term borrowings are used as part of our liquidity management strategy and fluctuate based on the Company s cash position. The Company s wholesale funding needs are largely dependent on core deposit levels, which have proven to be more volatile due to increased competition and slowing economic conditions. If we are unable to maintain deposit balances at a level sufficient to fund our asset growth, our composition of interest-bearing liabilities will shift toward additional wholesale funds, which typically have a higher interest cost than our core deposits.

Accrued Interest and Other Liabilities. Accrued interest and other liabilities decreased $1.1 million to $20.0 million at June 30, 2008, from $21.1 million at December 31, 2007. The decrease relates primarily to a $1.0 million decrease in accrued interest on brokered deposits as well as normal and recurring fluctuations in bonus and commissions payable.

Results of Operations

Overview

The following table presents the condensed statements of income for the three and six months ended June 30, 2008 and 2007.

Table of Contents

	Three months Ended June 30,				Six Months Ended June 30,			
			Increase/(decrease)				Increase/(decrease)	
(in thousands, except per share amounts)	2008	2007	Amount	%	2008	2007	Amount	%
INCOME STATEMENT DATA								
Interest income	$ 35,639	$ 38,286	$ (2,647)	-6.9%	$ 73,036	$ 74,643	$ (1,607)	-2.2%
Interest expense	12,143	16,581	(4,438)	-26.8%	27,562	31,923	(4,361)	-13.7%
NET INTEREST INCOME BEFORE PROVISION	23,496	21,705	1,791	8.3%	45,474	42,720	2,754	6.4%
Provision for loan losses	5,986	1,037	4,949	477.2%	11,017	1,037	9,980	962.4%
NET INTEREST INCOME AFTER PROVISION	17,510	20,668	(3,158)	-15.3%	34,457	41,683	(7,226)	-17.3%
Noninterest income	11,570	6,325	5,245	82.9%	18,993	12,957	6,036	46.6%
Noninterest expense	22,477	18,005	4,472	24.8%	44,382	36,390	7,992	22.0%
INCOME BEFORE INCOME TAXES	6,603	8,988	(2,385)	-26.5%	9,068	18,250	(9,182)	-50.3%
Provision for income taxes	2,420	3,328	(908)	-27.3%	3,290	6,707	(3,417)	-50.9%
NET INCOME	$ 4,183	$ 5,660	$ (1,477)	-26.1%	$ 5,778	$ 11,543	$ (5,765)	-49.9%

Annualized return on average assets for the three and six months ended June 30, 2008 was 0.67% and 0.47%, respectively, compared to 1.04% and 1.08% for the same periods in 2007. Annualized return on average common shareholders equity for the three and six months ended June 30, 2008 was 8.64% and 5.97%, respectively, compared to 11.74% and 12.43% for the same periods in 2007. The decrease in our return on average assets and common shareholders equity is primarily attributable to the provision for loan and credit losses of $5.6 million and $10.7 million for the three and six months ended June 30, 2008, respectively. The provision for loan and credit losses totaled $0.8 million and $1.0 million for the three and six months ended June 30, 2007, respectively.

For the three and six months ended June 30, 2008, the efficiency ratio increased to 64.07% and 68.75%, respectively, from 63.47% and 64.90% for the same periods in 2007. The fee-based business lines run at a higher efficiency ratio than the Bank, although the Bank is more capital intensive. The year-to-date ratio was negatively impacted by the first quarter results that were marked by seasonally low insurance revenues, a lack of Investment Banking transactions and the recent acquisitions of BDA and Wagner. Although our efficiency ratio will continue to be under pressure due to interest margin contraction, management expects it to improve over the year as the contribution from the fee-based businesses increases and the Company s cost containment initiatives take place.

Net Interest Income. The largest component of our net income is our net interest income. Net interest income is the difference between interest income, principally from loans and investment securities, and interest expense, principally on customer deposits and borrowings. Changes in net interest income result from changes in volume, net interest spread and net interest margin. Volume refers to the average dollar levels of interest-earning assets and interest-bearing liabilities. Net interest spread refers to the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities. Net interest margin refers to net interest income divided by average interest-earning assets and is influenced by the level and relative mix of interest-earning assets and interest-bearing liabilities.

As the majority of our assets are interest-earning and our liabilities are interest-bearing, changes in interest rates may impact our net interest margin. The Federal Open Markets Committee (FOMC) uses the fed funds rate, which is the interest rate used by banks to lend to each other, to influence interest rates and the economy. Changes in the fed funds rate have a direct correlation to changes in the prime rate, the underlying index for most of the variable rate loans issued by the Company. Since June 2007, the FOMC has lowered its target for the federal funds rate by 325 basis points. Although the Company maintains a relatively balanced interest rate sensitivity position, the magnitude of the rate cuts, combined with an increased shift to wholesale funding, caused our net interest margin to decrease by 21 basis points and 29 basis points for the three and six months ended June 30, 2008 respectively, from the same periods in 2007.

The following tables set forth the average amounts outstanding for each category of interest-earning assets and interest-bearing liabilities, the interest earned or paid on such amounts, and the average rate earned or paid for the three and six months ended June 30, 2008 and 2007.

Table of Contents

	For the Three Months Ended June 30,					
	2008			2007		
(in thousands)	Average Balance	Interest earned or paid	Average yield or cost (1)	Average Balance	Interest earned or paid	Average yield or cost (1)
Assets						
Federal funds sold and other	$ 7,492	$ 59	3.15%	$ 5,946	$ 122	8.21%
Investment securities (2)	420,826	5,431	5.16%	425,068	5,420	5.10%
Loans (2),(3)	1,911,062	30,311	6.34%	1,617,030	32,883	8.13%
Allowance for loan losses	(24,020)			(18,255)		
Total interest earning assets	$ 2,315,360	$ 35,801	6.18%	$ 2,029,789	$ 38,425	7.49%
Noninterest-earning assets						
Cash and due from banks	42,674			47,872		
Other	144,866			106,587		
Total assets	$ 2,502,900			$ 2,184,248		
Liabilities and Shareholders Equity						
Deposits						
NOW and money market	$ 676,456	$ 3,227	1.92%	$ 561,376	$ 4,546	3.25%
Savings	10,969	34	1.25%	11,320	50	1.77%
Eurodollar	108,345	553	2.02%			0.00%
Certificates of deposit						
Under $100,000	109,089	1,035	3.82%	119,583	1,448	4.86%
$100,000 and over	407,912	3,764	3.71%	371,179	4,637	5.01%
Total interest-bearing deposits	$ 1,312,771	$ 8,613	2.64%	$ 1,063,458	$ 10,681	4.03%
Other borrowings						
Securities sold under agreements to repurchase	155,267	715	1.82%	250,787	2,390	3.77%
Other short-term borrowings	310,217	1,849	2.36%	155,238	2,101	5.41%
Junior subordinated debentures	72,166	966	5.30%	72,166	1,409	7.81%
Total interest-bearing liabilities	$ 1,850,421	$ 12,143	2.62%	$ 1,541,649	$ 16,581	4.30%
Noninterest-bearing demand accounts	439,986			431,562		
Total deposits and interest-bearing liabilities	2,290,407			1,973,211		
Other noninterest-bearing liabilities	17,699			17,599		
Total liabilities	2,308,106			1,990,810		
Shareholders equity	194,794			193,438		
Total liabilities and shareholders equity	$ 2,502,900			$ 2,184,248		
Net interest income (taxable equivalent)		$ 23,658			$ 21,844	
Net interest spread			3.56%			3.19%
Net interest margin			4.11%			4.32%
Ratio of average interest-earning assets to average interest-bearing liabilities	125.13%			131.66%		

Table of Contents

	For the Six Months Ended June 30,					
	2008			2007		
(in thousands)	Average Balance	Interest earned or paid	Average yield or cost (1)	Average Balance	Interest earned or paid	Average yield or cost (1)
Assets						
Federal funds sold and other	$ 9,036	$ 166	3.67%	$ 6,118	$ 238	7.78%
Investment securities (2)	403,708	10,473	5.19%	419,689	10,745	5.12%
Loans (2),(3)	1,877,421	62,708	6.68%	1,587,569	63,951	8.06%
Allowance for loan losses	(22,635)			(18,119)		
Total interest earning assets	$ 2,267,530	$ 73,347	6.47%	$ 1,995,257	$ 74,934	7.57%
Noninterest-earning assets						
Cash and due from banks	42,152			47,327		
Other	140,587			107,691		
Total assets	$ 2,450,269			$ 2,150,275		
Liabilities and Shareholders Equity						
Deposits						
NOW and money market deposits	$ 676,255	$ 7,597	2.26%	$ 558,537	$ 8,765	3.16%
Savings	11,105	83	1.50%	11,211	93	1.67%
Eurodollar	100,507	1,165	2.29%			0.00%
Certificates of deposits						
Under $100,000	113,965	2,391	4.22%	106,911	2,524	4.76%
$100,000 and over	430,718	8,916	4.16%	353,696	8,724	4.97%
Total interest-bearing deposits	$ 1,332,550	$ 20,152	3.04%	$ 1,030,355	$ 20,106	3.94%
Other borrowings						
Securities sold under agreements to repurchase	152,510	1,622	2.10%	243,873	4,580	3.74%
Other short-term borrowings	250,357	3,572	2.82%	165,238	4,433	5.34%
Junior subordinated debentures	72,166	2,217	6.08%	72,166	2,804	7.73%
Total interest-bearing liabilities	$ 1,807,583	$ 27,563	3.05%	$ 1,511,632	$ 31,923	4.24%
Noninterest-bearing demand accounts	430,497			433,447		
Total deposits and interest-bearing liabilities	2,238,080			1,945,079		
Other noninterest-bearing liabilities	17,417			17,997		
Total liabilities and preferred securities	2,255,497			1,963,076		
Shareholders equity	194,772			187,199		
Total liabilities and shareholders equity	$ 2,450,269			$ 2,150,275		
Net interest income (taxable equivalent)		$ 45,784			$ 43,011	
Net interest spread			3.42%			3.33%
Net interest margin			4.06%			4.35%
Ratio of average interest-earning assets to average interest-bearing liabilities	125.45%			131.99%		

(1) Average yield or cost for the three and six months ended June 30, 2008 and 2007 has been annualized and is not necessarily indicative of results for the entire year.

(2) Yields include adjustments for tax-exempt interest income based on the Company s effective tax rate.

(3) Loan fees included in interest income are not material. Nonaccrual loans are excluded from average loans outstanding.

The increase in net interest income on a tax-equivalent basis for the three and six months ended June 30, 2008 was primarily driven by a decrease in interest expense. The decreasing rate environment during 2008 caused interest income to decrease by $2.6 million and $1.6 million for the three and six months ended June 30, 2008 respectively, over the comparable periods in 2007. Likewise, interest expense also decreased by $4.4 million for both the three and six months ended June 30, 2008, respectively over the comparable periods in 2007. For the three and six months ended June 30, 2008, the yield on average earning assets decreased 131 basis points and 110 basis points over the comparable periods in 2007. Similarly, the yield on average interest-bearing liabilities decreased by 168 basis points and 119 basis points for the three and six months ended June 30, 2008. In addition to the decreasing rate environment, interest expense also decreased due to a shift in the Bank s funding mix, as the Bank shifted out of brokered CDs into FHLB advances and Fed Funds Purchased. Brokered CDs decreased to $21.5 million at June 30, 2008 from $120.1 million at June 30, 2007. Brokered funding represents only 1.30% of total deposits at the current quarter versus 7.63% a year earlier.

Table of Contents

Management believes the Company s deposit rates have been set to retain deposits (and protect the margin), but not at a level necessary to attract new deposits. Based on continued loan demand, the Company intends to strengthen its focus on core deposits which may increase its marginal funding cost and place pressure on the net interest margin considering loan production has significantly outpaced deposit generation.

Noninterest Income

The following table presents noninterest income for the three and six months ended June 30, 2008 and 2007:

	Three months ended June 30,		Increase/(decrease)		Six months ended June 30,		Increase/(decrease)	
(in thousands)	**2008**	**2007**	**Amount**	**%**	**2008**	**2007**	**Amount**	**%**
NONINTEREST INCOME								
Deposit service charges	$ 972	$ 744	$ 228	31%	$ 1,911	$ 1,428	$ 483	34%
Investment advisory and trust income	1,739	1,192	547	46%	3,412	2,344	1,068	46%
Insurance income	4,153	2,440	1,713	70%	7,776	5,070	2,706	53%
Investment banking income	3,196	959	2,237	233%	3,489	2,382	1,107	46%
Other income	1,510	990	520	53%	2,405	1,733	672	39%
Total noninterest income	$ 11,570	$ 6,325	$ 5,245	83%	$ 18,993	$ 12,957	$ 6,036	47%

Noninterest income includes revenues earned from sources other than interest income. These sources include: service charges and fees on deposit accounts, letter of credit and ancillary loan fees, income from investment advisory and trust services, income from life insurance and wealth transfer products, benefits brokerage, property and casualty insurance, retainer and success fees from investment banking engagements, and increases in the cash surrender value of bank-owned life insurance.

Deposit Service Charges. Deposit service charges primarily consist of fees earned from our treasury management services. Customers are given the option to pay for these services in cash or by offsetting the fees for these services against an earnings credit that is given for maintaining noninterest-bearing deposits. Deposit service charges increased by 31% from June 30, 2007 mainly due to increases in treasury management analysis fees. The earnings credit rate applied to analysis balances has decreased as general interest rates have declined and as a result, we are collecting more of our fees in the form of hard-dollar cash, versus soft-dollar compensating balances.

Investment Advisory and Trust Income. Investment advisory and trust income for the three and six months ended June 30, 2008 increased $0.5 million and $1.1 million respectively, over the same periods in 2007. The increases are mainly attributable to the Company s recent acquisition of Wagner. At June 30, 2008, Discretionary Assets Under Management (AUM) were $896.8 million compared to $721.5 million at June 30, 2007. Total AUM, including custody and advisory assets, were $1.6 billion compared to $866.0 million. The overall increase in AUM is mainly due to the acquisition of Wagner, which had a total of $805.1 million in AUM at June 30, 2008.

Insurance Income. Insurance income is derived from three main areas, wealth transfer, benefits consulting and property and casualty. The majority of fees earned on wealth transfer transactions are earned at the inception of the product offering in the form of commissions. As the fees on these products are transactional by nature, fee income can fluctuate from period-to-period based on the number of transactions that have been closed. Revenue from benefits consulting and property and casualty is a more recurring revenue source.

For the three and six months ended on June 30, 2008 and 2007, revenue earned from the Insurance segment is comprised of the following:

	Three months ended June 30,		**Six months ended June 30,**	
(in thousands)	**2008**	**2007**	**2008**	**2007**
Wealth transfer and executive compensation	36.29%	35.35%	28.40%	42.50%
Benefits consulting	24.23%	35.55%	24.74%	33.28%
Property and casualty	37.70%	25.61%	44.54%	21.13%
Fee income	1.78%	3.50%	2.32%	3.09%
	100.00%	100.00%	100.00%	100.00%

Income from Property and Casualty comprises a larger portion of total insurance income for the three and six months ended June 30, 2008, when compared to the same periods in 2007, primarily due to the acquisition of BDA in the first quarter of 2008.

Table of Contents

Investment Banking Income. Investment banking income includes retainer fees which are recognized over the expected term of the engagement and success fees which are recognized when the transaction is completed and collectibility of fees is reasonably assured. Investment banking income is transactional by nature and will fluctuate based on the number of clients engaged and transactions successfully closed. The increase in revenue for the second quarter of 2008 and first half of 2008 compared to the same periods in 2007 was due primarily to the size and number of deals closed in 2008. In the second quarter of 2008, the Company closed several transactions, including one accounting for $2.2 million of total income.

Other Income. Other income is comprised of increases in the cash surrender value of BOLI, earnings on equity method investments, swap fees, merchant charges, bankcard fees, loan fees, wire transfer fees, foreign exchange fees, and safe deposit income. The increase in other income for 2008 compared to 2007 was primarily due to an increase in fees related to interest-rate swaps conducted with our customers. Swap fees increased $0.3 million and $0.4 million for the three and six months ended June 30, 2008, respectively, compared to the same periods in 2007.

Noninterest Expense

The following table presents noninterest expense for the three and six months ended June 30, 2008 and 2007:

	Three Months Ended June 30,		**Increase/(decrease)**		**Six Months Ended June 30,**		**Increase/(decrease)**	
(in thousands)	**2008**	**2007**	**Amount**	**%**	**2008**	**2007**	**Amount**	**%**
NONINTEREST EXPENSES								
Salaries and employee benefits	$ 15,616	$ 11,587	$ 4,029	35%	$ 30,165	$ 23,753	$ 6,412	27%
Stock based compensation expense	462	428	34	8%	886	708	178	25%
Occupancy expenses, premises and equipment	3,247	2,845	402	14%	6,384	5,675	709	12%
Amortization of intangibles	186	118	68	58%	389	237	152	64%
Other operating expenses	2,966	3,027	(61)	(2)%	6,558	6,017	541	9%
Total noninterest expenses	$ 22,477	$ 18,005	$ 4,472	25%	$ 44,382	$ 36,390	$ 7,992	22%

Salaries and Employee Benefits. Salaries and employee benefits have increased due to the acquisitions of BDA and Wagner, growth in our employee base and an increase variable compensation expense (due to an increase in non-interest income). The acquisitions of BDA and Wagner contributed $2.3 million and $1.2 million of the increase for the three and six months ended June 30, 2008. Base salary expense (excluding variable compensation expense) increased approximately 12% for the three and six months ended June 30, 2008. This increase reflects the hiring of additional seasoned bankers in the latter half of 2007 and an annual merit increase that was effective January 1, 2008 (which averaged 4%). Variable compensation expense (including discretionary bonuses and commissions) increased $1.7 million for both the three and six months ended June 30, 2008. At June 30, 2008, the Company employed 532 full-time-equivalent employees, compared to 478 a year earlier.

Stock-based Compensation. The Company uses stock-based compensation to retain existing employees, recruit new employees and it is considered an important part of overall compensation. The Company recognizes compensation costs for the grant-date fair value of awards issued to employees. The Company expects to continue using stock-based compensation in the future.

Occupancy Costs. Occupancy costs consist primarily of rent, depreciation, utilities, property taxes and insurance. Occupancy costs increase for 2008 is primarily due to the acquisitions of BDA and Wagner coupled with increased rent expense from two new locations scheduled to open in the latter part of 2008.

Amortization of Intangibles. Amortization of intangibles is primarily related to customer relationships and contracts. The increase in amortization expense is primarily the result of the impact of the additional amortization of intangible assets as a result of the acquisition of Wagner and BDA.

Other Operating Expenses. Other operating expenses consist primarily of business development expenses (meals, entertainment and travel), charitable donations, professional services (auditing, legal, marketing and courier), regulatory assessments, net gains and losses on sales of other assets and security write-downs and provision expense for off-balance sheet commitments. The increase in other operating expenses for the three months ended June 30, 2008 over the same period in 2007 was primarily attributed to the acquisitions Wagner and BDA ($0.1 million). The increase for the six months ended June 30, 2008 over the same period in 2007 was primarily attributed to a $0.3 million increase related to the impact of the FDICs new risk-based assessment rate

Table of Contents

framework and $0.3 million in marketing and printing costs (primarily driven by the company-wide branding project).

Provision and Allowance for Loan and Credit Losses

The provision for loan and credit losses was $5.6 million and $10.7 million for the three and six months ended June 30, 2008, compared to $0.8 million and $1.0 million for the same periods in 2007. The increase reflects the deterioration of property values in many western United States markets including Arizona. The negative trend in real estate values that started in 2007 continued into 2008, and certain real estate development loans in the Arizona market were further downgraded based on current property appraisals that showed declining collateral values. To date, the asset quality problems have been isolated primarily to land acquisition and development loans in the Arizona market. All loans are continually monitored to identify potential problems with repayment and collateral sufficiency. Loans collateralized by real estate in the Arizona portfolio are being closely examined in light of continued land value declines. As of June 30, 2008, the allowance for loan and credit losses amounted to 1.32% of total loans, compared to 1.16% at June 30, 2007. Though management believes the current allowance provides adequate coverage of potential problems in the loan portfolio as a whole, continued negative economic trends could adversely affect future earnings and asset quality.

For the first half of 2008, the Company had net charge-offs of $5.3 million compared with $0.1 million for the first half of 2007. Approximately $4.2 million of the current year charge-offs relate to two construction and development projects in the Arizona market.

The allowance for loan losses represents management s recognition of the risks of extending credit and its evaluation of the quality of the loan portfolio. The allowance is maintained to provide for probable losses related to specifically identified loans and for losses inherent in the loan portfolio that have been incurred as of the balance sheet date. The allowance is based on various factors affecting the loan portfolio, including a review of problem loans, business conditions, historical loss experience, evaluation of the quality of the underlying collateral, and holding and disposal costs. The allowance is increased by additional charges to operating income and reduced by loans charged off, net of recoveries.

The allowance for credit losses represents management s recognition of a separate reserve for off-balance sheet loan commitments and letters of credit. While the allowance for loan losses is recorded as a contra-asset to the loan portfolio on the consolidated balance sheet, the allowance for credit losses is recorded in Accrued Interest and Other Liabilities in the accompanying consolidated balance sheet. Although the allowances are presented separately on the balance sheet, any losses incurred from credit losses would be reported as a charge-off in the allowance for loan losses, since any loss would be recorded after the off-balance sheet commitment had been funded. Due to the relationship of these allowances as extensions of credit underwritten through a comprehensive risk analysis, information on both the allowance for loan and credit losses positions is presented in the following table.

Table of Contents

(dollars in thousands)	Six months ended June 30, 2008	Year ended December 31, 2007	Six months ended June 30, 2007
Allowance for loan losses at beginning of period	$ 20,043	$ 17,871	$ 17,871
Charge-offs:			
Commercial	(835)	(1,803)	(67)
Real estate construction	(4,401)		
Consumer	(124)	(30)	(16)
Other	(2)	(5)	
Total charge-offs	(5,362)	(1,838)	(83)
Recoveries:			
Commercial	27	56	23
Consumer	1	18	7
Other	1		3
Total recoveries	29	74	33
Net charge-offs	(5,333)	(1,764)	(50)
Provisions for loan losses charged to operations	11,017	3,936	1,037
Allowance for loan losses at end of period	$ 25,727	$ 20,043	$ 18,858
Allowance for credit losses at beginning of period	$ 576	$ 576	$ 576
Provisions for credit losses charged to operations	(350)		
Allowance for credit losses at end of period	$ 226	$ 576	$ 576
Combined allowance for loan and credit losses at end of period	$ 25,953	$ 20,619	$ 19,434
Combined provision for loan and credit losses	$ 10,667	$ 3,936	$ 1,037
Ratio of net (charge-offs) recoveries to average loans (1)	0.57%	0.11%	0.01%
Average loans outstanding during the period	$ 1,892,083	$ 1,665,379	$ 1,587,569

(1) The ratios for the six months ended June 30, 2008 and 2007 have been annualized and are not necessarily indicative of the results for the entire year.

Nonperforming Assets

Nonperforming assets consist of nonaccrual loans, restructured loans, past due loans, repossessed assets, and other real estate owned. The following table presents information regarding nonperforming assets as of the dates indicated:

(dollars in thousands)	At June 30, 2008	At December 31, 2007	At June 30, 2007
Nonperforming Loans			
Loans 90 days or more delinquent and still accruing	$ 1,096	$ 2,208	$
Nonaccrual loans	19,078	1,202	2,096
Total nonperforming loans	20,174	3,410	2,096
Repossessed assets	2,580	90	
Total nonperforming assets	$ 22,754	$ 3,500	$ 2,096
Allowance for loan losses	$ 25,727	$ 20,043	$ 18,858
Allowance for credit losses	226	576	576

Allowance for loan and credit losses	$ 25,953	$ 20,619	$ 19,434
Ratio of nonperforming assets to total assets	0.89%	0.15%	0.09%
Ratio of nonperforming loans to total loans	1.03%	0.18%	0.12%
Ratio of allowance for loan and credit losses to total loans	1.32%	1.12%	1.16%
Ratio of allowance for loan and credit losses to nonperforming loans	128.66%	604.69%	927.19%

Table of Contents

Approximately $15.3 million of the $22.8 million in total nonperforming assets at June 30, 2008 were originated in the Arizona market while $7.5 million were originated in the Colorado market.

Segment Results

The Company reports five operating segments: Commercial Banking, Investment Banking, Investment Advisory and Trust, Insurance and Corporate Support. A description of each segment is provided in Note 10 of the accompanying notes to the condensed consolidated financial statements. Certain financial metrics of each operating segment (excluding Corporate Support) is presented below.

Commercial Banking.

	Commercial Banking							
	Three months ended June 30,		Increase/(decrease)		Six months ended June 30,		Increase/(decrease)	
(in thousands)	2008	2007	Amount	%	2008	2007	Amount	%
Income Statement								
Net interest income	24,606	23,043	1,563	7%	48,055	45,372	2,683	6%
Provision for loan losses	5,986	1,037	4,949	477%	11,017	1,066	9,951	933%
Noninterest income	2,502	1,723	779	45%	4,262	3,149	1,113	35%
Noninterest expense	7,546	6,090	1,456	24%	15,429	12,560	2,869	23%
Provision for income taxes	5,031	6,567	(1,536)	(23)%	9,606	12,896	(3,290)	(26)%
Management fees and overhead allocations, net of tax	3,886	3,890	(4)	%	8,160	7,633	527	7%
Net income	$ 4,659	$ 7,182	$ (2,523)	(35)%	$ 8,105	$ 14,366	$ (6,261)	(44)%
Other information								
Full-time equivalent employees	379.11	352.44			377.09	350.32		

Net income for the three and six months ended June 30, 2008 decreased $2.5 million, or 35%, and $6.3 million, or 44%, compared to the same periods in 2007. The decrease during the three months ended June 30, 2008 was primarily the result of a $4.9 million increase in provision for loan losses and a $1.5 million increase in noninterest expense partially offset by a $1.6 million increase in net interest income, a $0.8 million increase in non-interest income, and a $1.5 million decrease in income tax expense. The decrease during the six months ended June 30, 2008 was primarily the result of a $9.9 million increase in provision for loan losses and a $2.9 million increase in non-interest expense partially offset by a $2.7 million increase in net interest income, a $1.1 million increase in non-interest income, and a $3.3 million decrease in income tax expense. Refer to the discussion of net interest income and the provision and allowance for loan and credit losses included elsewhere in this report for additional information.

Investment Banking.

25

Table of Contents

	Investment Banking							
	Three months ended June 30,		Increase/(decrease)		Six months ended June 30,		Increase/(decrease)	
(in thousands)	2008	2007	Amount	%	2008	2007	Amount	%
Income Statement								
Net interest income	12	27	(15)	(56)%	19	66	(47)	(71)%
Noninterest income	3,196	959	2,237	233%	3,489	2,382	1,107	46%
Noninterest expense	1,679	998	681	68%	2,606	2,518	88	3%
Provision for income taxes	588	(2)	590	29,500%	351	(21)	372	1,771%
Management fees and overhead allocations, net of tax	40	52	(12)	(23)%	89	96	(7)	(7)%
Net income	$ 901	$ (62)	$ 963	(1,553)%	$ 462	$ (145)	$ 607	(419)%
Other information								
Full-time equivalent employees	22.00	21.89			21.95	21.6		
Operating margin (1)	47.66%	-1.22%			25.71%	-2.86%		

(1) Operating margin is defined as net income before management fees, overhead allocations and income taxes.

Net income for the three and six months ended June 30, 2008 increased $1.0 million and $0.6 million, compared to the same periods in 2007. The increase for the three and six months ended June 30, 2008 was primarily the result of one transaction that closed during the quarter that represented $2.2 million in income. The increase for the months ended June 30, 2008 in non-interest income was partially offset by a $0.7 million increase in noninterest expense related to bonus expense on the closed transaction in the second quarter.

The segment continues to have a diversified backlog of engaged transactions, however, a greater number of engaged deals are being placed on hold. While Management believes that middle market M&A activity during 2008 will remain good for quality businesses, deal activity appears to be moderating. Restricted credit markets will continue to have an impact on both volume and multiples in middle-market transactions. However, middle-market deals will continue to close as financial buyers look to put the large amounts of capital raised in previous years to work and strategic buyers capitalize on attractive valuations. The sharp decline in housing coupled with rising commodity prices continues to pressure the economic environment and place strain on middle-market businesses. Sellers of middle-market businesses continue to feel valuation pressure due to uncertain economic conditions, a tighter lending environment and an increase in supply of businesses as baby-boomers begin to consider liquidity in anticipation of retirement.

Investment Advisory and Trust.

	Investment Advisory and Trust							
	Three months ended June 30,		Increase/(decrease)		Six months ended June 30,		Increase/(decrease)	
(in thousands)	2008	2007	Amount	%	2008	2007	Amount	%
Income Statement								
Net interest income	(4)	1	(5)	(500)%	(2)	1	(3)	(300)%
Noninterest income	1,739	1,192	547	46%	3,415	2,344	1,071	46%
Noninterest expense	1,703	1,026	677	66%	3,398	2,026	1,372	68%
Provision for income taxes	22	86	(64)	(74)%	26	137	(111)	(81)%
Management fees and overhead allocations, net	89	64	25	39%	175	121	54	45%

of tax													
Net income	$	(79)	$	17	$	(96)	(565)%	$	(186)	$	61	$	(247)	(405)%
Other information													
Full-time equivalent employees		34.75		21.41					35.02		20.75			
Operating margin (1)		1.84%		14.00%					0.44%		13.60%			

(1) Operating margin is defined as net income before management fees, overhead allocations and income taxes.

Net income for the three and six months ended June 30, 2008 decreased $0.1 million and $0.2 million, compared to the same periods in 2007. The Company closed the acquisition of Wagner as of December 31, 2007. The Wagner acquisition had no impact on the Company s results of operation for 2007 but contributed $0.5 million and $1.0 million in revenue for the three and six months ended June 30, 2008, respectively. The Wagner acquisition also increased noninterest expense by $0.5 million and $1.0 million for the three and six months ended June 30, 2008, respectively. Included in noninterest expense is $0.1 million in year-to-date amortization from intangibles included in the acquisition.

Table of Contents

Discretionary Assets under Management (AUM) were $896.8 million as of June 30, 2008. Total AUM, including custody and advisory assets, were $1.6 billion (including a very significant advisory client base on which we receive an hourly consulting fee, as opposed to a basis-point-fee on AUM).

In general, a decline in the broader equity market has negatively impacted the segment s AUM levels. Existing discretionary assets have decreased due to negative equity returns and attracting new assets is proving to be difficult given general market conditions. Continued pressure on AUM levels may mute current-year revenue growth.

Insurance.

	Insurance							
	Three months ended June 30,		Increase/(decrease)		Six months ended June 30,		Increase/(decrease)	
(in thousands)	**2008**	**2007**	**Amount**	**%**	**2008**	**2007**	**Amount**	**%**
Income Statement								
Net interest income	(2)		(2)	%	(1)	(1)		%
Noninterest income	4,153	2,440	1,713	70%	7,776	5,070	2,706	53%
Noninterest expense	3,839	2,468	1,371	56%	7,249	4,926	2,323	47%
Provision for income taxes	130	(4)	134	3,350%	223	74	149	201%
Management fees and overhead allocations, net of tax	99	110	(11)	(10)%	220	215	5	2%
Net income	$ 83	$ (134)	$ 217	(162)%	$ 83	$ (146)	$ 229	(157)%
Other information								
Full-time equivalent employees	80.74	60.83			80.49	61.47		
Operating margin (1)	7.52%	-1.15%			6.77%	2.82%		

(1) Operating margin is defined as net income before management fees, overhead allocations and income taxes.

Net income for the three and six months ended June 30, 2008 increased $0.2 million, compared to the same periods in 2007. Insurance income increased to $4.2 million in the second quarter from $2.4 million in the second quarter of 2007. Year to date, insurance revenues totaled $7.8 million versus $5.1 million for the prior year period. The segment was positively affected by the addition of CoBiz Insurance Arizona, which had no impact on the 2007 results but contributed $1.0 million and $2.3 million in revenue for the three and six months ended June 30, 2008. The CoBiz Insurance Arizona acquisition also increased noninterest expense by $1.0 million and $1.9 million for the three and six months ended June 30, 2008, respectively. Included in noninterest expense is $0.1 million in year-to-date amortization from intangibles included in the acquisition.

The Employee Benefits area continues to see steady revenue growth and has improved revenues by 12% year-to-date over the same period in 2007. Revenue for the wealth transfer division increased significantly in the second quarter to $1.6 million, from $0.9 million for the second quarter of 2007. Revenues from the division are transactional in nature, as estate planning goals are primarily achieved through the placement of life insurance.

Contractual Obligations and Commitments

Summarized below are the Company s contractual obligations (excluding deposit liabilities) to make future payments as of June 30, 2008:

Table of Contents

(in thousands)		Within one year		After one but within three years		After three but within five years		After five years		Total
Federal funds purchased	$	157,683	$		$		$		$	157,683
TIO funds		30,000								30,000
FHLB overnight funds purchased		31,356								31,356
Repurchase agreements		131,717								131,717
FHLB advances		236,000								236,000
Junior subordinated debentures (1)		2,805		983				72,166		75,954
Operating lease obligations		5,006		8,773		6,999		8,792		29,570
Revolving line of credit (2)		801		24,855						25,656
Supplemental executive retirement plan								2,534		2,534
Total contractual obligations	$	595,368	$	34,611	$	6,999	$	83,492	$	720,470

(1) Includes estimated interest payments of $2.8 million due Within one year and $1.0 million due After one but within three years. Interest reported above was calculated at the actual borrowing rate at June 30, 2008. Assumes each junior subordinated debenture remains outstanding until corresponding earliest call date. Because interest rates paid on junior subordinated debentures are variable rates, actual interest payments will differ based on actual LIBOR and actual amounts outstanding for the applicable periods. See Note 8 to our Condensed Consolidated Financial Statements for additional information on junior subordinated debentures.

(2) Includes estimated interest payments of $0.8 million due Within one year and $0.1 million due After one but within three years. For amounts outstanding under our revolving line of credit facility, interest reported above was calculated using the actual borrowing rate and amount outstanding at June 30, 2008. Because the interest rate paid under the revolving credit facility is a variable rate, actual interest payments will differ based on the benchmark rate and actual amounts outstanding for the applicable periods.

The Company has employed a strategy to expand its offering of fee-based products through the acquisition of entities that complement its business model. We will often structure the purchase price of an acquired entity to include an earn-out, which is a contingent payment based on achieving future performance levels. Given the uncertainty of today s economic climate and the performance challenges it creates for companies, we feel that the use of earn-outs in acquisitions is an effective method to bridge the expectation gap between a buyer s caution and a seller s optimism. Earn-outs help to protect buyers from paying a full valuation up-front without the assurance of the acquisition s performance, while allowing sellers to participate in the full value of the company provided the anticipated performance does occur. Since the earn-out payments are determined based on the acquired company s performance during the earn-out period, the total payments to be made are not known at the time of the acquisition. The Company has committed to make additional earn-out payments to the former owners of Wagner and BDA. The maximum amount of possible earn-outs to Wagner and BDA are $6.7 million and $0.8 million, respectively. At June 30, 2008, no amounts were due under the earn-out arrangements.

The contractual amount of the Company s financial instruments with off-balance sheet risk expiring by period at June 30, 2008, is presented below:

(in thousands)		Within one year		After one but within three years		After three but within five years		After five years		Total
Unfunded loan commitments	$	458,871	$	217,679	$	27,410	$	8,493	$	712,453
Standby letters of credit		37,788		8,062						45,850
Commercial letters of credit		7,268		3,633						10,901

Unfunded commitments for unconsolidated investments	2,180				2,180
Company guarantees	1,916				1,916
Total commitments	$ 508,023	$ 229,374	$ 27,410	$ 8,493	$ 773,300

The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the liquidity, credit enhancement, and financing needs of its customers. These financial instruments include

Table of Contents

legally binding commitments to extend credit and standby letters of credit and involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet. Credit risk is the principal risk associated with these instruments. The contractual amounts of these instruments represent the amount of credit risk should the instruments be fully drawn upon and the customer defaults.

To control the credit risk associated with entering into commitments and issuing letters of credit, the Company uses the same credit quality, collateral policies, and monitoring controls in making commitments and letters of credit as it does with its lending activities. The Company evaluates each customer s creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management s credit evaluation.

Legally binding 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. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Standby letters of credit obligate the Company to meet certain financial obligations of its customers if, under the contractual terms of the agreement, the customers are unable to do so. The financial standby letters of credit issued by the Company are irrevocable. Payment is only guaranteed under these letters of credit upon the borrower s failure to perform its obligations to the beneficiary.

The Company has also entered into interest-rate swap agreements under which it is required to either receive cash or pay cash to a counterparty depending on changes in interest rates. The interest-rate swaps are carried at their fair value on the consolidated balance sheet with the fair value representing the net present value of expected future cash receipts or payments based on market interest rates as of the balance sheet date. Interest-rate swaps recorded on the balance sheet at June 30, 2008 do not represent amounts that will ultimately be received or paid under the contracts and are therefore excluded from the table above.

Liquidity and Capital Resources

Liquidity refers to the Company s ability to generate adequate amounts of cash to meet financial obligations to its customers and shareholders in order to fund loans, to respond to deposit outflows and to cover operating expenses. Maintaining a level of liquid funds through asset/liability management seeks to ensure that these needs are met at a reasonable cost. Liquidity is essential to compensate for fluctuations in the balance sheet and provide funds for growth and normal operating expenditures. Sources of funds include customer deposits, scheduled amortization of loans, loan prepayments, scheduled maturities of investments, and cash flows from mortgage-backed securities. Liquidity needs may also be met by converting assets into cash or obtaining sources of additional funding, whether through deposit growth or borrowings under lines of credit with correspondent banks.

Liquidity management is the process by which the Company manages the continuing flow of funds necessary to meet its financial commitments on a timely basis and at a reasonable cost. Our liquidity management objective is to ensure our ability to satisfy the cash flow requirements of depositors and borrowers and to allow us to sustain our operations. These funding commitments include withdrawals by depositors, credit commitments to borrowers, shareholder dividends, expenses of its operations, and capital expenditures. Liquidity is monitored and closely managed by the Company s Asset and Liability Committee (ALCO), a group of senior officers from the lending, deposit gathering, finance and treasury areas. ALCO s primary responsibilities are to ensure the necessary level of funds are available for normal operations as well as maintain a contingency funding policy to ensure that liquidity stress events are quickly identified, and management plans are in place to respond. This is accomplished through the use of policies which establish limits and require measurements to monitor liquidity trends, including management reporting that identifies the amounts and costs of all available funding sources.

The Company s current liquidity position is expected to be more than adequate to fund expected asset growth. Historically, our primary source of funds has been customer deposits. Scheduled loan repayments are a relatively stable source of funds, while deposit inflows and unscheduled loan prepayments, which are influenced by fluctuations in the general level of interest rates, returns available on other investments, competition, economic conditions, and other factors, are less predictable.

Our primary source of shareholders equity is the retention of our net after-tax earnings and proceeds from the issuance of common stock. At June 30, 2008 shareholders equity totaled $192.5 million, a $3.2 million increase from December 31, 2007. The increase was due to net income of $5.8 million and $1.6 million due to stock

Table of Contents

options, excess tax benefits on option exercises and employee stock purchase plan activity. These increases were offset by dividend payments of $3.2 million and a $1.0 million decrease in accumulated other comprehensive income due to net unrealized losses in the investment and derivatives portfolio.

On July 25, 2008, the Company announced that intends to conduct a private placement of Subordinated Unsecured Promissory Notes Due 2018 (the Notes) which will be offered to certain of the Company s directors, customers and shareholders. The Company intends to offer a minimum of $5 million in aggregate principal amount, and a maximum of $30 million in aggregate principal amount (which maximum could be increased to $50 million in the Company s sole discretion). The Notes will bear a fixed, annual interest rate of 9.0%, will mature ten years after the date that the first Note is issued in connection with this offering and will pay interest quarterly. The Notes can be prepaid at par without penalty at any time on or after the fifth anniversary of the date that the first Note is issued in connection with this offering. Proceeds from the offering would be used for general corporate purposes. The Company began the offering on July 28, 2008.

The Notes offered will not be and have not been registered under the federal securities laws or applicable state securities laws and may not be offered or sold in the United States absent registration thereunder or applicable exemptions from such registration requirements. The Company intends to offer and sell the Notes pursuant to such exemptions.

Liquidity from asset categories is provided through cash, interest-bearing deposits with banks and federal funds sold, which totaled $62.2 million at June 30, 2008, compared to $49.6 million at December 31, 2007. Additional asset liquidity sources include principal and interest payments from securities in the Company s investment portfolio and cash flows from its amortizing loan portfolio. Longer-term liquidity needs may be met by selling securities available for sale or raising additional capital.

Liability liquidity sources include attracting deposits at competitive rates. Deposits at June 30, 2008 and December 31, 2007 totaled $1.7 billion. In addition, the Company uses various forms of short-term borrowings for cash management and liquidity purposes. These forms of borrowings include federal funds purchased, securities sold under agreements to repurchase, the State of Colorado Treasury s Time Deposit program, borrowings from the FHLB and revolving lines-of-credit. At June 30, 2008, the Bank has approved federal funds purchase lines with 10 correspondent banks with an aggregate credit line of $265.0 million, as well as credit lines with three firms to transact repurchase agreements which are limited based on available collateral sources. The Company regularly uses its federal funds purchase lines to manage its daily cash position. However, availability to access funds through those lines is dependent upon the cash position of the correspondent banks and there may be times when certain lines are not available. In addition, certain lines require a one day rest period after a specified number of consecutive days of accessing the lines.

The Bank also has a line of credit from the FHLB that is limited by the amount of eligible collateral available to secure it. Borrowings under the FHLB line are required to be secured by unpledged securities and qualifying loans. At June 30, 2008, we had $59.0 million in unpledged securities and loans available to collateralize FHLB borrowings and securities sold under agreements to repurchase. Borrowings may also be used on a longer-term basis to support expanded lending activities and to match the maturity or repricing intervals of assets. Additionally, the Bank is eligible to participate in the Federal Reserve s Term Auction Facility (TAF). Under the TAF, the Federal Reserve auctions term funds to depository institutions. Advances are for a fixed amount, with the rate determined by the auction process, and must be fully collateralized. We also participate in the U.S. Treasury s Term Investment Option (TIO) program for Treasury Tax and Loan participants. The TIO program allows us to obtain additional short-term funds at a rate determined through an auction process that is limited by the amount of eligible collateral available to secure it. Borrowings may be used on a short-term basis to compensate for reductions in other sources of funds (such as deposit inflows at less than projected levels). Available funding at June 30, 2008 totaled $173.7 million, which represents 7.4% of the Company s earning assets. Total available funding of $173.7 million is comprised of $107.2 million federal funds purchased, $59.0 FHLB borrowings, and $7.5 million securities available for repurchase and TIO.

At the holding company level, our primary sources of funds are dividends paid from the Bank and fee-based subsidiaries, management fees assessed to the Bank and the fee-based business lines, proceeds from the issuance of common stock, and other capital markets activity. Additionally, in August 2007, the Company entered into a one-year $30.0 million revolving line of credit agreement to be used for general corporate purposes. At June 30, 2008, the revolving line of credit, which matured on July 31, 2008, had an unused balance of $5.2 million. Effective July 31, 2008, the Company extended the line of credit for an additional one year period. The main use of this liquidity is the quarterly payment of dividends on our common stock, quarterly interest payments

Table of Contents

on the junior subordinated debentures, payments for mergers and acquisitions activity (including potential earn-out payments), and payments for the salaries and benefits for the employees of the holding company. The approval of the Colorado State Banking Board is required prior to the declaration of any dividend by the Bank if the total of all dividends declared by the Bank in any calendar year exceeds the total of its net profits for that year combined with the retained net profits for the preceding two years. In addition, the Federal Deposit Insurance Corporation Improvement Act of 1991 provides that the Bank cannot pay a dividend if it will cause the Bank to be undercapitalized. The Company s ability to pay dividends on its common stock depends upon the availability of dividends from the Bank and earnings from its fee-based businesses, and upon the Company s compliance with the capital adequacy guidelines of the FRB.

The Company s condensed consolidated financial statements do not reflect various off-balance sheet commitments that are made in the normal course of business, which may involve some liquidity risk. Off-balance sheet arrangements are discussed in the Contractual Obligations and Commitments section above. The Company has also committed to investing in certain partnerships.

We currently anticipate that our cash and cash equivalents, expected cash flows from operations together with our available lines of credit will be sufficient to meet our anticipated cash requirements for working capital, loan originations, capital expenditures and other obligations for at least the next 12 months.

We are subject to minimum risk-based capital limitations as set forth by federal banking regulations at both the consolidated Company level and the Bank level. Under the risk-based capital guidelines, different categories of assets, including certain off-balance sheet items, such as loan commitments in excess of one year and letters of credit, are assigned different risk weights, based generally on the perceived credit risk of the asset. These risk weights are multiplied by corresponding asset balances to determine a risk-weighted asset base. For purposes of the risk-based capital guidelines, total capital is defined as the sum of Tier 1 and Tier 2 capital elements, with Tier 2 capital being limited to 100% of Tier 1 capital. Tier 1 capital includes, with certain restrictions, common shareholders equity, perpetual preferred stock, and minority interests in consolidated subsidiaries. Tier 2 capital includes, with certain limitations, perpetual preferred stock not included in Tier 1 capital, certain maturing capital instruments, and the allowance for loan and credit losses. As of June 30, 2008, the Bank was well-capitalized with a Tier 1 Capital ratio of 9.98%, and Total Capital ratio of 11.14%. The minimum ratios to be considered well-capitalized under the risk-based capital standards are 6% and 10%, respectively. At the holding company level, the Company s Tier 1 Capital ratio at June 30, 2008 is expected to be 8.97%, and its Total Capital ratio 10.33%. In order to comply with the regulatory capital constraints, the Company and its Board of Directors constantly monitor the capital level and its anticipated needs based on the Company s growth. The Company has identified sources of additional capital that could be used if needed, and monitors the costs and benefits of these sources, which include both the public and private markets.

Effects of Inflation and Changing Prices

The primary impact of inflation on our operations is increased operating costs. Unlike most retail or manufacturing companies, virtually all of the assets and liabilities of a financial institution such as the Bank are monetary in nature. As a result, the impact of interest rates on a financial institution s performance is generally greater than the impact of inflation. Although interest rates do not necessarily move in the same direction, or to the same extent, as the prices of goods and services, increases in inflation generally have resulted in increased interest rates. Over short periods of time, interest rates may not move in the same direction, or at the same magnitude, as inflation.

Forward Looking Statements

This report contains forward-looking statements that describe CoBiz s future plans, strategies and expectations. All forward-looking statements are based on assumptions and involve risks and uncertainties, many of which are beyond our control and which may cause our actual results, performance or achievements to differ materially from the results, performance or achievements contemplated by the forward-looking statements. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words such as believe, expect, anticipate, intend, plan, estimate or words of similar meaning, or future or conditional verbs such a would, could or may. Forward-looking statements speak only as of the date they are made. Such risks and uncertainties include, among other things:

- Competitive pressures among depository and other financial institutions nationally and in our market areas may increase significantly.

Table of Contents

- Adverse changes in the economy or business conditions, either nationally or in our market areas, could increase credit-related losses and expenses and/or limit growth.

- Increases in defaults by borrowers and other delinquencies could result in increases in our provision for losses on loans and related expenses.

- Our inability to manage growth effectively, including the successful expansion of our customer support, administrative infrastructure and internal management systems, could adversely affect our results of operations and prospects.

- Fluctuations in interest rates and market prices could reduce our net interest margin and asset valuations and increase our expenses.

- The consequences of continued bank acquisitions and mergers in our market areas, resulting in fewer but much larger and financially stronger competitors, could increase competition for financial services to our detriment.

- Our continued growth will depend in part on our ability to enter new markets successfully and capitalize on other growth opportunities.

- Changes in legislative or regulatory requirements applicable to us and our subsidiaries could increase costs, limit certain operations and adversely affect results of operations.

- Changes in tax requirements, including tax rate changes, new tax laws and revised tax law interpretations may increase our tax expense or adversely affect our customers businesses.

- The risks identified under Risk Factors in Item 1A. of our annual report on Form 10-K for the year ended December 31, 2007.

In light of these risks, uncertainties and assumptions, you should not place undue reliance on any forward-looking statements in this report. We undertake no obligation to publicly update or otherwise revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

As of June 30, 2008, there have been no material changes in the quantitative and qualitative information about market risk provided pursuant to Item 305 of Regulation S-K as presented in our Form 10-K for the year ended December 31, 2007.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. The Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer and the Company s Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures as of June 30, 2008, the end of the period covered by this report (Evaluation Date), pursuant to Exchange Act Rule 13a-15(e). Based upon that evaluation, the Company s Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company s periodic Securities and Exchange Commission filings.

Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control. During the quarter that ended on the Evaluation Date, there were no changes in internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

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

Table of Contents

At the Annual Meeting of Shareholders held on May 15, 2008, the following proposals were adopted by the margins indicated:

1. Election of Directors.

	Number of Shares	
	For	Withheld
Steven Bangert	18,609,419	215,806
Michael B. Burgamy	18,694,594	130,631
Morgan Gust	18,528,428	296,797
Thomas M. Longust	18,699,268	125,957
Jonathan C. Lorenz	18,600,736	224,489
Evan Makovsky	18,630,590	194,635
Harold F. Mosanko	18,630,283	194,942
Noel N. Rothman	18,583,424	241,801
Timothy J. Travis	18,650,831	174,394
Mary Beth Vitale	18,673,040	152,185
Mary White	18,519,001	306,224

2. Proposal for ratification of independent registered public accounting firm.

	Number of shares
For	18,670,422
Against	108,240
Abstain	46,563

3. Proposal to amend the Company s 2005 Equity Incentive Plan to increase the number of shares authorized under the Plan to 2,750,000 shares and increase the restricted stock award limit under the Plan to 500,000 shares.

	Number of shares
For	9,642,523
Against	4,406,863
Abstain	116,649

4. Proposal to adopt reasonable policy regarding use of telephones.

	Number of shares
For	516,471

Against	7,806,532
Abstain	5,843,032

Item 6. Exhibits

Exhibits and Index of Exhibits.

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

31.2 Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer.

32.1 Section 1350 Certification of the Chief Executive Officer.

32.2 Section 1350 Certification of the Chief Financial Officer.

Table of Contents

SIGNATURES

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

COBIZ FINANCIAL INC.

Date:	August 11, 2008	By	/s/ Steven Bangert
		Steven Bangert, Chief Executive Officer and Chairman	
Date:	August 11, 2008	By	/s/ Lyne B. Andrich
		Lyne B. Andrich, Executive Vice President and Chief Financial Officer	