TOMPKINS FINANCIAL CORP
Form 10-Q
May 12, 2008

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 March 31, 2008

OR

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

Commission File Number **1-12709**

Tompkins Financial Corporation

(Exact name of registrant as specified in its charter)

New York	**16-1482357**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
The Commons, P.O. Box 460, Ithaca, NY	**14851**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: **(607) 273-3210**

Registrant s former name (if changed since last report): NA

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 definition 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 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.

Indicate the number of shares of the Registrant s Common Stock outstanding as of the latest practicable date:

Class	Outstanding as of April 25, 2008

Common Stock, $.10 par value	9,629,693 shares

TOMPKINS FINANCIAL CORPORATION

FORM 10-Q

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

TOMPKINS FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CONDITION
(In thousands, except share data) (Unaudited)

	As of 03/31/2008	As of 12/31/2007
ASSETS		
Cash and noninterest bearing balances due from banks	$ 54,034	$ 46,705
Interest bearing balances due from banks	3,592	3,154
Trading securities, at fair value	47,691	60,135
Available-for-sale securities, at fair value	715,689	639,148
Held-to-maturity securities, fair value of $49,684 at March 31, 2008, and $50,780 at December 31, 2007	48,247	49,593
Loans and leases, net of unearned income and deferred costs and fees	1,455,570	1,440,122
Less: Allowance for loan and lease losses	14,781	14,607
Net Loans and Leases	**1,440,789**	**1,425,515**
Bank premises and equipment, net	44,654	44,811
Corporate owned life insurance	30,160	29,821
Goodwill	22,973	22,894
Other intangible assets	3,323	3,497
Accrued interest and other assets	39,261	34,186
Total Assets	**$ 2,450,413**	**$ 2,359,459**
LIABILITIES, MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES AND SHAREHOLDERS EQUITY		
Deposits:		
Interest bearing:		
Checking, savings and money market	$ 864,137	$ 741,836
Time	600,001	585,142
Noninterest bearing	376,816	393,848
Total Deposits	**1,840,954**	**1,720,826**
Federal funds purchased and securities sold under agreements to repurchase, ($15,986 valued at fair value at March 31, 2008 and $15,553 valued at fair value at December 31, 2007).	210,079	195,447
Other borrowings, ($11,210 valued at fair value at March 31, 2008 and $10,795 valued at fair value at December 31, 2007).	156,439	210,862
Other liabilities	31,768	33,677
Total Liabilities	**$ 2,239,240**	**$ 2,160,812**
Minority interest in consolidated subsidiaries	1,485	1,452
Shareholders equity:		
Common Stock - par value $.10 per share: Authorized 15,000,000 shares; Issued: 9,662,340 at March 31, 2008; and 9,615,430 at December 31, 2007	966	962
Additional paid-in capital	149,835	147,657
Retained earnings	61,120	57,255

Accumulated other comprehensive loss		(330)		(6,900)
Treasury stock, at cost 72,421 shares at March 31, 2008, and 70,896 shares at December 31, 2007		(1,903)		(1,779)
Total Shareholders Equity	**$**	**209,688**	**$**	**197,195**
Total Liabilities, Minority Interest in Consolidated Subsidiaries and Shareholders Equity	**$**	**2,450,413**	**$**	**2,359,459**

See accompanying notes to unaudited condensed consolidated financial statements.

TOMPKINS FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data) (Unaudited)

	Three months ended 03/31/2008	Three months ended 03/31/2007
INTEREST AND DIVIDEND INCOME		
Loans	$ 24,413	$ 23,399
Due from banks	77	96
Federal funds sold	20	96
Trading securities	626	569
Available-for-sale securities	8,081	7,243
Held-to-maturity securities	474	536
Total Interest and Dividend Income	**33,691**	**31,939**
INTEREST EXPENSE		
Deposits:		
Time certificates of deposits of $100,000 or more	2,795	4,419
Other deposits	7,161	7,426
Federal funds purchased and securities sold under agreements to repurchase	2,037	1,963
Other borrowings	1,865	568
Total Interest Expense	**13,858**	**14,376**
Net Interest Income	**19,833**	**17,563**
Less: Provision for loan/lease losses	625	471
Net Interest Income After Provision for Loan/Lease Losses	**19,208**	**17,092**
NONINTEREST INCOME		
Investment services income	3,669	3,471
Insurance commissions and fees	2,790	2,716
Service charges on deposit accounts	2,525	1,920
Card services income	802	798
Other service charges	621	657
Mark-to-market gains on trading securities	295	452
Mark-to-market loss on liabilities held at fair value	(848)	0
Increase in cash surrender value of corporate owned life insurance	337	272
Gain on VISA stock redemption	1,639	0
Other income	439	136
Net gain on sale of available-for-sale securities	247	23
Total Noninterest Income	**12,516**	**10,445**
NONINTEREST EXPENSES		
Salary and wages	9,369	8,802
Pension and other employee benefits	2,695	2,503
Net occupancy expense of bank premises	1,621	1,504
Furniture and fixture expense	924	947
Marketing expense	562	635
Professional fees	629	650
Software licenses and maintenance	609	500

Cardholder expense		294		235
Amortization of intangible assets		148		181
Other operating expense		3,530		3,140
Total Noninterest Expenses		**20,381**		**19,097**
Income Before Income Tax Expense and Minority Interest in Consolidated Subsidiaries		**11,343**		**8,440**
Minority interest in consolidated subsidiaries		33		33
Income Tax Expense		3,802		2,626
Net Income	**$**	**7,508**	**$**	**5,781**
Basic Earnings Per Share	**$**	**0.78**	**$**	**0.59**
Diluted Earnings Per Share	**$**	**0.77**	**$**	**0.58**

See accompanying notes to unaudited condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands) (Unaudited)

	Three months ended 03/31/2008	Three months ended 03/31/2007
OPERATING ACTIVITIES		
Net income	$ 7,508	$ 5,781
Adjustments to reconcile net income to net cash Provided by operating activities:		
Provision for loan and lease losses	625	471
Depreciation and amortization premises, equipment, and software	1,096	1,066
Amortization of intangible assets	148	181
Earnings from corporate owned life insurance	(337)	(272)
Net amortization on securities	298	339
Mark-to-market gain on trading securities	(295)	(452)
Mark-to-market loss on liabilities held at fair value	848	0
Net gain on sale of available-for-sale securities	(247)	(23)
Net loss (gain) on sale of loans	3	(55)
Proceeds from sale of loans	1,557	2,444
Loans originated for sale	(1,171)	(2,372)
Net (gain) loss on sale of bank premises and equipment	(7)	114
Stock-based compensation expense	243	188
Decrease (increase) in accrued interest receivable	211	(29)
(Decrease) increase in accrued interest payable	(499)	813
Purchases of trading securities	(3,998)	0
Payments/maturities from trading securities	16,653	1,582
Contribution to pension plan	(5,000)	0
Other, net	(6,357)	(4,128)
Net Cash Provided by Operating Activities	**11,279**	**5,648**
INVESTING ACTIVITIES		
Proceeds from maturities of available-for-sale securities	90,798	25,604
Proceeds from sales of available-for-sale securities	7,464	10,001
Proceeds from maturities of held-to-maturity securities	1,865	4,216
Purchases of available-for-sale securities	(164,079)	(74,124)
Purchases of held-to-maturity securities	(540)	(1,454)
Net increase in loans	(16,288)	(13,990)
Proceeds from sale of bank premises and equipment	16	37
Purchases of bank premises and equipment	(810)	(1,960)
Other, net	(103)	0
Net Cash Used in Investing Activities	**(81,677)**	**(51,670)**
FINANCING ACTIVITIES		
Net increase in demand, money market, and savings deposits	105,269	20,791
Net increase in time deposits	14,859	79,533
Net increase in securities sold under agreements to repurchase and Federal funds purchased	14,199	8,175
Increase in other borrowings	20,000	5,000
Repayment of other borrowings	(74,838)	(44,630)
Cash dividends	(3,061)	(2,948)
Common stock repurchased and returned to unissued status	0	(2,714)
Net proceeds from exercise of stock options	1,547	116
Tax benefit from stock options exercises	190	2
Net Cash Provided by Financing Activities	**78,165**	**63,325**

Net Increase in Cash and Cash Equivalents		**7,767**		**17,303**
Cash and cash equivalents at beginning of period		49,859		52,174
Total Cash & Cash Equivalents at End of Period	**$**	**57,626**	**$**	**69,477**
Supplemental Information:				
Cash paid during the year for - Interest	$	14,357	$	13,564
Cash paid during the year for Taxes	$	8,531	$	8,513
Transfer of available-for-sale securities to trading securities with adoption of SFAS No. 159	$	0	$	63,383

See accompanying notes to unaudited condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY
(In thousands, except share data) (Unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balances at January 1, 2007	**$ 989**	**$ 158,203**	**$ 44,429**	**$ (12,487)**	**$ (1,514)**	**$ 189,620**
Comprehensive Income:						
Net Income			5,781			5,781
Other comprehensive income				749		749
Total Comprehensive Income						6,530
Cash dividends ($0.30 per share)			(2,948)			(2,948)
Exercise of stock options and related tax benefit (16,531 shares, net)	2	116				118
Common stock repurchased and returned to unissued status (63,700 shares)	(7)	(2,707)				(2,714)
Directors deferred compensation plan (1,419 shares, net)		63			(63)	0
Stock-based compensation expense		188				188
Cumulative effect adjustment adoption of SFAS 159			(1,522)	1,522		0
Balances at March 31, 2007	**$ 984**	**$ 155,863**	**$ 45,740**	**$ (10,216)**	**$ (1,577)**	**$ 190,794**
Balances at January 1, 2008	**$ 962**	**$ 147,657**	**$ 57,255**	**$ (6,900)**	**$ (1,779)**	**$ 197,195**
Comprehensive Income:						
Net Income			7,508			7,508
Other comprehensive income				6,570		6,570
Total Comprehensive Income						14,078
Cash dividends ($0.32 per share)			(3,061)			(3,061)
Exercise of stock options and related tax benefit (49,658 shares, net)	5	1,732				1,737
Directors deferred compensation plan (1,525 shares, net)		124			(124)	0
Stock-based compensation expense		243				243
Cumulative effect adjustment split-dollar life insurance			(582)			(582)
Purchase accounting adjustment ((2,748) shares)	(1)	79				78
Balances at March 31, 2008	**$ 966**	**$ 149,835**	**$ 61,120**	**$ (330)**	**$ (1,903)**	**$ 209,688**

See accompanying notes to unaudited condensed consolidated financial statements.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Business

Headquartered in Ithaca, New York, Tompkins Financial Corporation (Tompkins or the Company) is registered as a financial holding company with the Federal Reserve Board under the Bank Holding Company Act of 1956, as amended. The Company conducts its business through its (i) three wholly-owned banking subsidiaries, Tompkins Trust Company, The Bank of Castile and The Mahopac National Bank (Mahopac National Bank), its (ii) wholly-owned insurance subsidiary, Tompkins Insurance Agencies, Inc., and its (iii) wholly-owned investment services subsidiary, AM&M Financial Services, Inc. (AM&M). AM&M has three operating companies: (1) AM&M Planners, Inc., which provides fee based financial planning and wealth management services for corporate executives, small business owners, and high net worth individuals; (2) Ensemble Financial Services, Inc., an independent broker-dealer and outsourcing company for financial planners and investment advisors; and (3) Ensemble Risk Solutions, Inc., which creates customized risk management plans using life, disability and long-term care insurance products. Unless the context otherwise requires, the term Company refers to Tompkins Financial Corporation and its subsidiaries. The Company s principal offices are located at The Commons, Ithaca, New York 14851, and its telephone number is (607) 273-3210. The Company s common stock is traded on the American Stock Exchange under the Symbol TMP.

2. Basis of Presentation

The unaudited condensed consolidated financial statements included in this quarterly report have been prepared in accordance with accounting principles generally accepted in the United States of America and the instructions for Form 10-Q and Rule 10-01 of Regulation S-X. In the application of certain accounting policies management is required to make assumptions regarding the effect of matters that are inherently uncertain. These estimates and assumptions affect the reported amounts of certain assets, liabilities, revenues, and expenses in the unaudited condensed consolidated financial statements. Different amounts could be reported under different conditions, or if different assumptions were used in the application of these accounting policies. The accounting policies that management considers critical in this respect are the determination of the allowance for loan and lease losses, and the expenses and liabilities associated with the Company s pension and post-retirement benefits.

In management s opinion, the unaudited condensed consolidated financial statements reflect all adjustments of a normal recurring nature. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year ended December 31, 2008. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2007. The Company adopted Financial Accounting Standards Board Emerging Issues Task Force (EITF) Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*, effective January 1, 2008. Other than the adoption of this EITF, there have been no significant changes to the Company s accounting policies from those presented in the 2007 Annual Report on Form 10-K.

The consolidated financial information included herein combines the results of operations, the assets, liabilities, and shareholders equity of the Company and its subsidiaries. Amounts in the prior period s consolidated financial statements are reclassified when necessary to conform to the current period s presentation. All significant intercompany balances and transactions are eliminated in consolidation.

3. Accounting Pronouncements

In September 2006, the Emerging Issues Task Force (EITF) reached a final consensus on Issue 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements.* The consensus stipulates that an agreement by an employer to share a portion of the proceeds of a life insurance policy with an employee during the postretirement period is a postretirement benefit arrangement required to be accounted for under SFAS No. 106 or Accounting Principles Board Opinion (APB) No. 12, Omnibus Opinion 1967. The consensus concludes that the purchase of a split-dollar life insurance policy does not constitute a settlement under SFAS No. 106 and, therefore, a liability for the postretirement obligation must be recognized under SFAS No. 106 if the benefit is offered under an arrangement that constitutes a plan or under APB No. 12 if it is not part of a plan. Issue 06-4 is effective for annual or interim reporting periods beginning after December 15, 2007. The provisions of Issue 06-04 should be applied through either a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption or retrospective application. The Company adopted EITF 06-4 on January 1, 2008 as a change in accounting principle through a cumulative-effect adjustment to retained earnings of $582,000.

In December 2007 the FASB issued SFAS No. 141*, Business Combinations (Revised 2007)* (SFAS 141R). SFAS 141R replaces SFAS 141, *Business Combinations*, and applies to all transactions and other events in which one entity obtains control over one or more other businesses. SFAS 141R requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities and any non-controlling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. This fair value approach replaces the cost-allocation process required under SFAS 141 whereby the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. SFAS 141R requires acquirers to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed, as was previously the case under SFAS 141. Under SFAS 141R, the requirements of SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities*, would have to be met in order to accrue for a restructuring plan in purchase accounting. Pre-acquisition contingencies are to be recognized at fair value, unless it is a non-contractual contingency that is not likely to materialize, in which case, nothing should be recognized in purchase accounting and, instead, that contingency would be subject to the probable and estimable recognition criteria of SFAS 5, Accounting for Contingencies. SFAS 141R may have a significant impact on any future business combinations closing on or after January 1, 2009.

In December 2007, the FASB issued SFAS No. 160*, Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB Statement No. 51.* SFAS 160 amends Accounting Research Bulletin (ARB) No. 51, Consolidated Financial Statements, to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 clarifies that a non-controlling interest in a subsidiary, which is sometimes referred to as a minority interest, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, SFAS 160 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. SFAS 160 is effective on January 1, 2009 and is not expected to have a significant impact on the Company s 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 amends SFAS 133, Accounting for Derivative Instruments and Hedging Activities, to amend and expand the disclosure requirements of SFAS 133 to provide greater transparency about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedge items are accounted for under SFAS 133 and its related interpretations, and (iii) how derivative instruments and related hedged items affect an entity s financial position, results of operations and cash flows. To meet those objectives, SFAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 is effective for the Company on January 1, 2009 and is not expected to have a significant impact on the Company s financial statements.

On November 5, 2007, the SEC issued Staff Accounting Bulletin No. 109, *Written Loan Commitments Recorded at Fair Value Through Earnings* (SAB No. 109). SAB No. 109 supersedes SAB 105, *Application of Accounting Principles to Loan Commitments*, and indicates that the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. The guidance in SAB No. 109 became effective on January 1, 2008 and did not have a material impact on the Corporation s financial statements.

4. Mergers and Acquisitions

In November 2007, the Company entered into a definitive agreement under which Tompkins will acquire Sleepy Hollow Bancorp, Inc. in a cash transaction valued at $30.2 million, subject to various regulatory approvals. On April 22, 2008, the Company announced that all regulatory and shareholder approvals had been received. Headquartered in Sleepy Hollow, New York, Sleepy Hollow Bancorp, Inc. has assets of approximately $245 million and is the parent company of Sleepy Hollow Bank, which operates five full-service offices and one limited-service facility, all in Westchester County, New York. Sleepy Hollow Bank has approximately $160 million in loans and $225 million in deposits. Upon completion of the transaction, Sleepy Hollow Bank and Mahopac National Bank will be combined, resulting in a $750 million community bank, with fourteen branches and one limited-service office serving Westchester, Putnam and Dutchess Counties.

5. Earnings Per Share

The Company follows the provisions of SFAS No. 128, *Earnings Per Share* (EPS). A computation of Basic EPS and Diluted EPS for the three-month periods ending March 31, 2008, and 2007 is presented in the table below.

Three months ended March 31, 2008 (in thousands except share and per share data)	**Net Income (Numerator)**	**Weighted Average Shares (Denominator**	**Per Share Amount**
Basic EPS:			
Income available to holders of common stock	$ 7,508	9,602,478	$ 0.78
Effect of dilutive securities:			
Stock options		94,072	
Diluted EPS:			
Income available to holders of common stock plus assumed conversions	$ 7,508	9,696,550	$ 0.77

The effect of dilutive securities calculation for the three-month period ended March 31, 2008, excludes stock options covering 491,111 shares of common stock because they are anti-dilutive.

Three months ended March 31, 2007 (In thousands except share and per share data)	**Net Income (Numerator)**	**Weighted Average Shares (Denominator)**	**Per Share Amount**
Basic EPS:			
Income available to holders of common stock	$ 5,781	9,846,679	$ 0.59
Effect of dilutive securities:			
Stock options		101,136	
Diluted EPS:			
Income available to holders of common stock plus assumed conversions	$ 5,781	9,947,815	$ 0.58

The effect of dilutive securities calculation for the three-month period ended March 31, 2007, excludes stock options covering 287,539 shares of common stock because they are anti-dilutive.

6. Comprehensive Income

(In thousands)	Three months ended 03/31/2008	03/31/2007
Net income	$ 7,508	$ 5,781
Other comprehensive income (loss), net of tax:		
Unrealized gain (loss) on available-for-sale securities:		
Net unrealized holding gain on available-for-sale securities arising holding gain was $11,017 in 2008 and $1,113 in 2007.during the year. Pre-tax net unrealized	6,610	668
Reclassification adjustment for net realized gain on sale of available-for-sale securities (pre-tax net gain of $247 in 2008 and $23 in 2007	(148)	(14)
Employee benefit plans:		
Amortization of actuarial losses, prior service cost, and transition obligation (pre-tax of $180 in 2008 and $158 in 2007)	108	95
Other comprehensive income	6,570	749
Total comprehensive income	**$ 14,078**	**$ 6,530**

7. Employee Benefit Plans

The following table sets forth the amount of the net periodic benefit cost recognized by the Company for the Company s pension plan, post-retirement plan (Life and Health), and supplemental employee retirement plans (SERP) including the following components: the service cost and interest cost; the expected return on plan assets for the period; the amortization of the unrecognized transitional obligation or transition asset; and the amounts of recognized gains and losses, prior service cost recognized, and gain or loss recognized due to settlement or curtailment.

Components of Net Period Benefit Cost

	Pension Benefits Three months ended		Life and Health Three months ended		SERP Benefits Three months ended	
(In thousands)	03/31/2008	03/31/2007	03/31/2008	03/31/2007	03/31/2008	03/31/2007
Service cost	$ 523	$ 399	$ 30	$ 27	$ 46	$ 32
Interest cost	574	501	80	75	129	116
Expected return on plan assets for the period	(820)	(744)	0	0	0	0
Amortization of transition liability	0	0	17	17	0	0
Amortization of prior service cost	(26)	(27)	0	0	23	23
Amortization of net loss	147	123	0	0	19	22
Net periodic benefit cost	$ 398	$ 252	$ 127	$ 119	$ 217	$ 193

The Company realized approximately $108,000 net of tax, for the three months ended March 31, 2008, as amortization of amounts previously recognized in accumulated other comprehensive income.

The Company previously disclosed in its audited consolidated financial statements for the year ended December 31, 2007, contained in the Company s Annual Report on Form 10-K, that although the Company is not required to contribute to the pension plan in 2008, it may voluntarily contribute to the pension plan in 2008. The Company contributed $5.0 million to the pension plan in the first three months of 2008.

8. Financial Guarantees

Financial Accounting Standards Board (FASB) Interpretation No. 45 (FIN No. 45), *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others; an Interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34* requires certain disclosures and potential liability recognition for the fair value at issuance of guarantees that fall within its scope. Based upon management s interpretation of FIN No. 45, the Company currently does not issue any guarantees that would require liability recognition under FIN No. 45, other than standby letters of credit. The Company extends standby letters of credit to its customers in the normal course of business. The standby letters of credit are generally short-term. As of March 31, 2008, the Company s maximum potential obligation under standby letters of credit was $50.7 million. Management uses the same credit policies to extend standby letters of credit that it uses for on-balance sheet lending decisions and may require collateral to support standby letters of credit based upon its evaluation of the counterparty. Management does not anticipate any significant losses as a result of these transactions.

In the fourth quarter of 2007, the Company, as a Visa member bank, recorded a pre-tax charge of $862,000, representing an estimate of the Company s proportional share of certain costs and liabilities associated with litigation (Covered Litigation) involving Visa. During the first quarter of 2008, Visa successfully completed its initial public offering (IPO) and used a portion of the proceeds from the IPO to fund a $3.0 billion litigation escrow account. As a result, the Company reversed $455,000 of the $862,000 total pre-tax charges which the Company had recorded in the fourth quarter of 2007.

9. Segment and Related Information

The Company manages its operations through two business segments: banking and financial services. Financial services activities consist of the results of the Company s trust, wealth and risk management operations. All other activities, including holding company activities, are considered banking. The Company accounts for intercompany fees and services at an estimated fair value according to regulatory requirements for the services provided. Intercompany items relate primarily to the use of human resources, information systems, accounting and marketing services provided by any of the Banks and the holding company. All other accounting policies are the same as those described in the summary of significant accounting policies.

Summarized financial information concerning the Company s reportable segments and the reconciliation to the Company s consolidated results is shown in the following table. Investment in subsidiaries is netted out of the presentations below. The Intercompany column identifies the intercompany activities of revenues, expenses and other assets between the banking and financial services segment.

	As of and for the three months ended March 31, 2008			
(in thousands)	Banking	Financial Services	Intercompany	Consolidated
Interest income	$ 33,642	$ 63	$ (14)	$ 33,691
Interest expense	13,870	2	(14)	13,858
Net interest income	19,772	61	0	19,833
Provision for loan losses	625	0	0	625
Noninterest income	6,212	6,478	(174)	12,516
Noninterest expense	15,393	5,162	(174)	20,381
Income before income taxes	9,966	1,377	0	11,343
Minority interest	33	0	0	33
Provision for income taxes	3,323	479	0	3,802
Net Income	$ 6,610	$ 898	$ 0	$ 7,508
Depreciation and amortization	$ 1,036	$ 60	$ 0	$ 1,096
Assets	2,423,102	31,196	(3,885)	2,450,413
Goodwill	5,377	17,596	0	22,973
Other intangibles	1,257	2,066	0	3,323

Loans, net	1,437,606	3,183	0	1,440,789
Deposits	1,844,430	290	(3,766)	1,840,954
Equity	184,021	25,667	0	209,688

(in thousands)	As of and for the three months ended March 31, 2007			
	Banking	Financial Services	Intercompany	Consolidated
Interest income	$ 31,872	$ 68	$ (1)	$ 31,939
Interest expense	14,376	1	(1)	14,376
Net interest income	17,496	67	0	17,563
Provision for loan losses	471	0	0	471
Noninterest income	4,344	6,130	(29)	10,445
Noninterest expense	14,632	4,494	(29)	19,097
Income before income taxes	6,737	1,703	0	8,440
Minority interest	33	0	0	33
Provision for income taxes	2,006	620	0	2,626
Net Income	$ 4,698	$ 1,083	$ 0	$ 5,781
Depreciation and amortization	$ 995	$ 97	$ 0	$ 1,092
Assets	2,256,760	25,745	(2,659)	2,279,846
Goodwill	5,377	15,852	0	21,229
Other intangibles	1,573	2,289	0	3,862
Loans, net	1,321,981	3,491	0	1,325,472
Deposits	1,810,080	2,328	(2,664)	1,809,744
Equity	169,373	21,421	0	190,794

10. Fair Value

The Company adopted SFAS No. 157, *Fair Value Measurements*, on January 1, 2007. The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of March 31, 2008, segregated by the level of valuation inputs within the fair value hierarchy used to measure fair value.

Fair Value Measurements
March 31, 2008

(In thousands)	Carrying Value 03/31/08	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Trading securities	$ 47,691	$ 47,691	$ 0	$ 0
Available-for-sale securities	715,689	0	713,718	1,971
Borrowings	27,196	0	27,196	0

The change in the book value of the $2.0 million of available-for-sale securities valued using significant unobservable inputs (Level 3), between January 1, 2008 and March 31, 2008 was immaterial in relation to the total market value of available-for-sale securities.

The Company determines fair value for its trading securities using independently quoted market prices. The Company determines fair value for its available-for-sale securities using an independent bond pricing service for identical assets or very similar securities. The pricing service uses a variety of techniques to determine fair value, including market maker bids, quotes and pricing models. Inputs to the model include recent trades, benchmark interest rates, spreads, and actual and projected cash flows.

The Company determines fair value for its borrowings using a discounted cash flow technique based upon expected cash flows and current spreads on FHLB advances with the same structure and terms. The Company also receives pricing information from third parties, including the FHLB. The pricing obtained is considered representative of the transfer price if the liabilities were assumed by a third party. The Company s potential credit risk did not have a material impact on the quoted settlement prices used in measuring the fair value of the FHLB borrowings for the three months ended March 31, 2008.

Certain assets are measured at fair value on a nonrecurring basis. For the Company, these include loans held for sale, collateral dependent impaired loans, other real estate owned, goodwill and other intangible assets. During the three months ended March 31, 2008, the impact of any fair value adjustments on these nonrecurring items was not material.

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

BUSINESS

Tompkins Financial Corporation (Tompkins or the Company) is a registered financial holding company incorporated in 1995 under the laws of the State of New York and its common stock is listed on the American Stock Exchange (Symbol: TMP). Tompkins is headquartered at The Commons, Ithaca, New York. Tompkins is the corporate parent of three community banks; Tompkins Trust Company (Trust Company), The Bank of Castile and The Mahopac National Bank (Mahopac National Bank); an insurance agency, Tompkins Insurance Agencies, Inc. (Tompkins Insurance); and a fee-based financial planning and wealth management firm, AM&M Financial Services, Inc. (AM&M). Unless the context otherwise requires, the term Company refers collectively to Tompkins Financial Corporation and its subsidiaries.

The Company has identified two business segments, banking and financial services. Financial services activities include the results of the Company s trust, financial planning, wealth management and broker-dealer services, risk management, and insurance agency operations. All other activities are considered banking. Information about the Company s business segments is included in Note 8, Segment and Other Related Information, in Notes to Unaudited Condensed Consolidated Financial Statements.

Banking services consist primarily of attracting deposits from the areas served by the Company s 39 banking offices and using those deposits to originate a variety of commercial loans, consumer loans, real estate loans (including commercial loans collateralized by real estate), and leases. The Company s principal expenses are interest on deposits, interest on borrowings, and operating and general administrative expenses, as well as provisions for loan/lease losses. Funding sources, other than deposits, include borrowings, securities sold under agreements to repurchase, and cash flow from lending and investing activities.

The Company provides trust and investment services through Tompkins Investment Services (TIS), a division of Trust Company, and investment services through AM&M. TIS, with office locations at all three of the Company s subsidiary banks, provides a full range of money management services, including investment management accounts, custody accounts, trusts, retirement plans and rollovers, estate settlement, and financial planning. TIS also expanded its retail brokerage services in 2006. AM&M provides fee-based financial planning for small business owners, professionals and corporate executives and other individuals with complex financial needs. AM&M also provides wealth management services and operates a broker-dealer subsidiary, which is an outsourcing company for financial planners and investment advisors.

The Company provides property and casualty insurance services through Tompkins Insurance and life, long-term care and disability insurance through AM&M. Tompkins Insurance is headquartered in Batavia, New York, and offers property and casualty insurance to individuals and businesses primarily in Western New York. Over the past several years, Tompkins Insurance has acquired smaller insurance agencies generally in the market areas serviced by the Company s banking subsidiaries. Tompkins Insurance offers services to customers of the Company s banking subsidiaries by sharing offices with The Bank of Castile and The Trust Company. In addition to these shared offices, Tompkins Insurance has five stand-alone offices in Western New York, and two stand-alone offices in Tompkins County. AM&M operates a subsidiary that creates customized risk management plans using life, disability and long-term care insurance products.

AM&M is headquartered in Pittsford, New York and offers fee-based financial planning services through three operating companies: (1) AM&M Planners, Inc., which provides fee based financial planning and wealth management services for corporate executives, small business owners and high net worth individuals; (2) Ensemble Financial Services, Inc., an independent broker-dealer and leading outsourcing company for financial planners and investment advisors; and (3) Ensemble Risk Solutions, Inc., which creates customized risk management plans using life, disability and long-term care insurance products.

Competition for commercial banking and other financial services is strong in the Company s market area. Competition includes other commercial banks, savings and loan associations, credit unions, finance companies, Internet-based financial services companies, mutual funds, insurance companies, brokerage and investment companies, and other financial intermediaries. The Company differentiates itself from its competitors through its full complement of banking and related financial services, and through its community commitment and involvement in its primary market areas, as well as its commitment to quality and personalized banking services. Banking and financial services are also highly regulated. As a financial holding company of three community banks, the Company is subject to examination and regulation by the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Office of the Comptroller of Currency, and the New York State Banking Department. Additionally, the Company is subject to examination and regulation from the New York State Insurance Department, the Securities and Exchange Commission and the Financial Industry Regulatory Authority.

Other external factors affecting the Company s operating results are market rates of interest, the condition of financial markets, and both national and regional economic conditions. Trends in market interest rates and competitive pressures have been challenging for the banking subsidiaries over the past several years. Growth in loans and deposits as well as continued efforts to expand fee-based businesses have helped to offset the pressures of the current interest rate environment. Subprime lending and declining real estate values have also adversely affected the financial services industry in 2007 and 2008, with significant write-downs taken by large financial institutions related to subprime exposure. The Company has not engaged in the origination or purchase of subprime loans or securities as a line of business. The Company s asset quality remains solid with nonperforming assets representing 0.38% of total assets at March 31, 2008 compared to 0.34% of total assets at March 31, 2007. The Company s community bank subsidiaries operate, in the aggregate, 39 banking offices, including one limited-service office, serving communities in many upstate New York markets. Economic climates in these markets vary by region.

The following discussion is intended to provide an understanding of the consolidated financial condition and results of operations of the Company for the three months ended March 31, 2008. It should be read in conjunction with the Company s audited consolidated financial statements and the notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007, and the unaudited condensed consolidated financial statements and notes included elsewhere in this Quarterly Report on Form 10-Q.

Forward-Looking Statements

The Company is making this statement in order to satisfy the Safe Harbor provision contained in the Private Securities Litigation Reform Act of 1995. The statements contained in this Quarterly Report on Form 10-Q that are not statements of historical fact may include forward-looking statements that involve a number of risks and uncertainties. Such forward-looking statements are made based on management s expectations and beliefs concerning future events impacting the Company and are subject to certain uncertainties and factors relating to the Company s operations and economic environment, all of which are difficult to predict and many of which are beyond the control of the Company, that could cause actual results of the Company to differ materially from those matters expressed and/or implied by such forward-looking statements. The following factors are among those that could cause actual results to differ materially from the forward-looking statements: changes in general economic, market and regulatory conditions; the development of an interest rate environment that may adversely affect the Company s interest rate spread, other income or cash flow anticipated from the Company s operations, investment and/or lending activities; changes in laws and regulations affecting banks, insurance companies, bank holding companies and/or financial holding companies; technological developments and changes; the ability to continue to introduce competitive new products and services on a timely, cost-effective basis; governmental and public policy changes, including environmental regulation; protection and validity of intellectual property rights; reliance on large customers; and financial resources in the amounts, at the times and on the terms required to support the Company s future businesses. In addition, such forward-looking statements could be affected by general industry and market conditions and growth rates, general economic and political conditions, including interest rate and currency exchange rate fluctuations, and other factors.

Critical Accounting Policies

In the course of the Company s normal business activity, management must select and apply many accounting policies and methodologies that lead to the financial results presented in the consolidated financial statements of the Company. Some of these policies are more critical than others. Management considers the accounting policy relating to the allowance for loan and lease losses to be a critical accounting policy because of the uncertainty and subjectivity inherent in estimating the levels of allowance needed to cover probable credit losses within the loan and lease portfolio and the material effect that these estimates can have on the Company s results of operations.

The Company has developed a methodology to measure the amount of estimated loan loss exposure inherent in the loan portfolio to ensure that an adequate reserve is maintained. The methodology includes an estimate of exposure for the following: specifically reviewed and graded loans, historical loss experience by product type, past due and nonperforming loans, and other internal and external factors such as local and regional economic conditions, growth trends, and credit policy and underwriting standards. The methodology includes a review of loans considered impaired in accordance with the Statement of Financial Accounting Standards (SFAS) No. 114, *Accounting by Creditors for Impairment of a Loan*, as well as other commercial loans and commercial mortgage loans that are evaluated using an internal rating system. An estimated exposure amount is assigned to these internally reviewed credits based upon a review of the borrower s financial condition, payment history, collateral adequacy, and business conditions. For commercial loans and commercial mortgage loans not specifically reviewed, and for more homogenous loan portfolios such as residential mortgage loans and consumer loans, estimated exposure amounts are assigned based upon historical loss experience as well as past due status. Lastly, additional allowances are maintained based upon management judgment and assessment of other quantitative and qualitative factors such as regional and local economic conditions and portfolio growth trends.

Since the methodology is based upon historical experience and trends, as well as management s judgment, factors may arise that result in different estimations. Significant factors that could give rise to changes in these estimates may include, but are not limited to, changes in economic conditions in the local area, concentration of risk, and changes in local property values. While management s evaluation of the allowance for loan and lease losses as of March 31, 2008, considers the allowance to be adequate, under adversely different conditions or assumptions, the Company would need to increase the allowance.

Another critical accounting policy is the policy for pensions and other post-retirement benefits. The calculation of the expenses and liabilities related to pensions and post-retirement benefits requires estimates and assumptions of key factors including, but not limited to, discount rate, return on plan assets, future salary increases, employment levels, employee retention, and life expectancies of plan participants. The Company uses an actuarial firm in making these estimates and assumptions. Changes in these assumptions due to market conditions, governing laws and regulations, or Company specific circumstances may result in material changes to the Company s pension and other post-retirement expenses and liabilities.

All accounting policies are important and the reader of the Company s financial statements should review these policies, described in Note 1 to the notes to consolidated financials statements to the Company s audited consolidated financial statements contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2007, to gain a greater understanding of how the Company s financial performance is reported.

OVERVIEW

Net income for the first quarter of 2008 was $7.5 million or $0.77 per diluted share compared to $5.8 million or $0.58 per diluted share for the first quarter of 2007, and $7.4 million or $0.77 per diluted share for the fourth quarter of 2007. First quarter 2008 net income benefited from solid growth in net interest income and noninterest income, partially offset by higher noninterest expenses. Noninterest income for the first quarter of 2008 included $1.6 million of pre-tax other income related to the Visa, Inc. s initial public offering (Visa IPO), consisting of a $1.2 million gain on the mandatory partial redemption of Visa stock and a $0.4 million partial reversal of an accrual for indemnification charges established in the fourth quarter of 2007. The $1.6 million of pre-tax income added $0.10 to first quarter 2008 diluted earnings per share.

Return on average assets (ROA) for the quarter ended March 31, 2008 was 1.26% compared to 1.05% for the quarter ended March 31, 2007. Return on average shareholders equity (ROE) for the first quarter of 2008 was 14.93%, compared to 12.39% for the same period in 2007. The increase in ROA and ROE reflects the higher net income in the first quarter of 2008 compared to the same period in 2007, partially offset by growth in average assets and average equity for the three months ended March 31, 2008, compared to the same period in 2007.

Total revenues, consisting of net interest income and noninterest income, were $32.3 million in the first quarter of 2008, up 15.5% over the comparable period in 2007. The increase in revenues reflects growth in both net interest income and noninterest income. Net interest income for the first quarter of 2008, was up 12.9% over the same period prior year and up 1.8% over the fourth quarter of 2007. First quarter 2008 net interest income benefited from growth in average earnings assets and an increased net interest margin over the comparable quarter of 2007. The 200 basis point decline in short term rates during the first quarter of 2008 contributed to the decrease in interest expense in the quarter over the same period in 2007.

Noninterest income was up 19.8% for the first quarter of 2008 over the same period in 2007, with growth in all major fee based products and services. The growth in noninterest income reflects the successful implementation of certain profit improvement initiatives, the gain related to the Visa IPO, and gains on the sale of available-for-sale securities. Partially offsetting these positive factors are net mark-to-market losses of $553,000 related to securities and borrowings held at fair value.

Noninterest expenses were up 6.7% for the quarter over the same period in 2007. The increase was mainly in compensation and benefits related expenses, reflecting annual merit increases, and stock-based and other incentive compensation accruals.

Segment Reporting

The Company has identified two business segments, banking and financial services. Financial services activities consist of the results of the Company s trust, financial planning and wealth management, broker-dealer services, and risk management operations. All other activities are considered banking.

The Banking segment reported net income for the first three months of 2008 of $6.6 million, up $1.9 million or 40.7% from net income of $4.7 million in 2007. Net income for the first quarter of 2008 included pre-tax income of $1.6 million ($983,000 after-tax) related to the Visa IPO. Net interest income for the three months ended March 31, 2008, was $19.8 million, up $2.3 million or 13.0% over 2007, driven by growth in average earning assets and a reduction in funding costs. Deposit rates came down in the fourth quarter of 2007 and the first quarter of 2008 in response to the Federal Reserve s cut of short-term interest rates. Noninterest income of $6.2 million for the first quarter of 2008 was up $1.9 million or 43.0%, from the same period in 2007, mainly a result of the Visa IPO. Service charges on deposit accounts were up $605,000 or 31.5% in the first quarter of 2008 over the same period in 2007. Noninterest expenses totaled $15.4 million in 2008, an increase of $761,000 or 5.2% over the same period in 2007. The increase was mainly in compensation and benefits related expenses, reflecting annual merit increases, and stock-based and other incentive compensation accruals.

The Financial Services segment had net income of $898,000 in the first quarter of 2008, a decrease of $185,000 or 17.1% from net income of $1.1 million in the same quarter of the prior year. Noninterest income derived from the Financial Services segment was $6.5 million in 2008, an increase of $348,000 or 5.7% over the same period in 2007. Trust and investment fees are generally based on the market value of assets within each account. Volatility in the equity and bond markets impacts the market value of assets and related investment fees. Noninterest expenses of $5.2 million in 2008 were up $668,000 or 14.9% over the same period prior year. The increase was mainly in compensation and benefits related expenses, reflecting annual merit increases, and stock-based and other incentive compensation accruals.

RESULTS OF OPERATIONS

Net Interest Income

The following table shows average interest-earning assets and interest-bearing liabilities, and the corresponding yield or cost associated with each. Taxable-equivalent net interest income increased by $2.3 million, or 12.6% for the three months ended March 31, 2008, compared to the same period in 2007. The increase primarily resulted from an increase in the average volume of interest-earning assets, an increase in net interest margin compared to same period prior year, and an increase in the number of days in the first quarter of 2008 due to leap year. The Company s net interest margin in the first quarter of 2008 benefited from the Federal Reserve s 200 basis points reduction in short term rates during the first quarter of 2008. The lower short-term market rates led to a decrease in the yield on average earning assets for the quarter; however, the decrease in yield on average earning asset was more than offset by lower funding costs, resulting in an increase in the net interest margin for the quarter over the same quarter prior year. The net interest margin for the first quarter of 2008 was 3.68% compared to 3.55% for the same period of the prior year, and 3.70% for the fourth quarter of 2007.

Taxable-equivalent interest income was up 5.4% for the first quarter of 2008 over the comparable period in 2007. The growth in taxable-equivalent interest income was primarily a result of higher average loan volumes as average yields were down with the decrease in market interest rates. Average loan balances were up 9.0% quarter-to-date over the same period in 2007. Loan growth was seen in commercial, commercial real estate and residential real estate loans. For the three months ended March 31, 2008, the average yield on loans and leases was 6.79%, down 36 basis points compared to the same period in 2007. Average balances and average yields on securities were up for the quarter over the corresponding period in 2007. The average yield on securities was up 14 basis points in the first quarter of 2008 over the same period prior year.

Interest expense was down 3.6% for the first quarter of 2008 compared to the corresponding period in 2007, driven by lower deposit rates and an increase in the volume of noninterest bearing deposits and lower costing savings and money market deposits. The decrease in short-term market rates during the first quarter of 2008 contributed to a 56 basis point decrease in the average rate paid on deposits. The average rate paid on deposits for the three months ended March 31, 2008 was 2.81% compared to 3.37% for the same period in 2007. Average interest-bearing deposit balances for the three months ended March 31, 2008, were flat compared to the three month period ended March 31, 2007, as increases in average savings and money market deposit balances were offset by decreases in more rate sensitive time deposit balances. Average time deposit balances for the first quarter of 2008, were down $108.9 million, or 15.0% from 2007, as management lowered the rates on these deposit products in response to rate cuts by the Federal Reserve Board. Average balances of securities sold under agreements to repurchase and other borrowings were up for the first quarter 2008 over the same period prior year, to partially fund growth in average earning assets.

Average Consolidated Balance Sheet and Net Interest Analysis

	Year to Date Period Ended Mar-08			Year to Date Period Ended Mar-07		
(Dollar amounts in thousands)	Average Balance (YTD)	Interest	Average Yield/Rate	Average Balance (YTD)	Interest	Average Yield/Rate
ASSETS						
Interest-earning assets						
Certificates of deposit with other banks						
Securities (1)	$ 11,042	$ 77	2.80%			