First Business Financial Services, Inc.
Form 10-K
March 19, 2008

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

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007
Commission file number 0-51028

FIRST BUSINESS FINANCIAL SERVICES, INC.

WISCONSIN	39-1576570
(State or jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
401 Charmany Drive Madison, WI	53719
(Address of Principal Executive Offices)	(Zip Code)

(608) 238-8008
Registrant s telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $0.01 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. o Yes þ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. o Yes þ No

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. þ Yes o No

Indicate by check mark if the disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this From 10-K or any amendment to this Form 10-K. 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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o		Accelerated filer o
Non-accelerated filer o	(Do not check if a smaller reporting company)	Smaller Reporting Company þ

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

The aggregate market value of the common equity held by non-affiliates computed by reference to the closing price of such common equity, as of the last business day of the registrant s most recently completed second fiscal quarter was approximately $51.2 million.

As of March 5, 2008, 2,510,657 shares of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on May 5, 2008 are incorporated by reference into Part III hereof.

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PART I.

Item 1.   Business

General

First Business Financial Services, Inc. (FBFS or the Corporation) is a registered bank holding company incorporated under the laws of the State of Wisconsin and is engaged in the commercial banking business through its wholly-owned banking subsidiaries First Business Bank and First Business Bank   Milwaukee (referred to as   the Banks). All of the operations of FBFS are conducted through the Banks and certain subsidiaries of First Business Bank. The Corporation operates as a business bank focusing on delivering a full line of commercial banking products and services tailored to meet the specific needs of small and medium size businesses, business owners, executives, professionals and high net worth individuals. The Corporation does not utilize its locations to attract retail customers. The Corporation generally targets businesses with sales between $2 million and $50 million. For a more detailed discussion of loans, leases and the underwriting criteria of the Banks, see **Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.** To supplement its business banking deposit base, the Corporation utilizes wholesale funding alternatives to fund a portion of the Corporation s assets.

First Business Bank (FBB) is a state bank that was chartered in 1909 under the name Kingston State Bank. In 1990, FBB relocated its home office to Madison, Wisconsin, opened a banking facility in University Research Park, and began focusing on providing high-quality banking services to small and medium-sized businesses located in Madison and the surrounding area. FBB offers a full line of commercial banking products and services in the greater Madison, Wisconsin area, tailored to meet the specific needs of businesses, business owners, executives, professionals and high net worth individuals. FBB s product lines include cash management services, commercial lending, commercial real estate lending and equipment leasing. FBB also offers trust and investment services through First Business Trust & Investments (FBTI), a division of FBB. In addition, FBB offers business owners, executives, professionals and high net worth individuals consumer services including a variety of deposit accounts, personal lines of credit and personal loans. FBB has two loan production offices in the Northeast Region of Wisconsin to serve Oshkosh, Wisconsin and Appleton, Wisconsin and their surrounding areas. The Appleton, Wisconsin location opened in December 2007.

FBB has two wholly owned subsidiaries that are complementary to the Corporation s business banking services. First Business Capital Corp. (FBCC) is a wholly-owned subsidiary of FBB operating as an asset-based commercial lending company specializing in providing secured lines of credit as well as term loans on equipment and real estate assets primarily to manufacturers and wholesale distribution companies located throughout the United States. First Business Equipment Finance, LLC (FBEF), formerly known as First Business Leasing, LLC, is a commercial equipment finance company specializing in financing of general equipment to small and middle market companies throughout the United States.

First Madison Investment Corp. (FMIC) and FMCC Nevada Corp. (FMCCNC) are operating subsidiaries located in and formed under the laws of the state of Nevada. FMIC was organized for the purpose of managing a portion of the Bank s investment portfolio. FMIC invests in marketable securities and loans purchased from FBB. FMCCNC, a wholly-owned subsidiary of FBCC, invests in loans purchased from FBCC.

First Business Bank   Milwaukee (FBB   Milwaukee) is a state bank that was chartered in 2000 in Wisconsin. FBB Milwaukee also offers a wide range of commercial banking products and services tailored to meet the specific needs of businesses, business owners, executives, professionals and high net worth individuals in the greater Milwaukee, Wisconsin area through a single location in Brookfield, Wisconsin. Like FBB, FBB   Milwaukee s product lines include cash management services, commercial lending and commercial real estate lending for similar sized businesses as FBB. FBB Milwaukee also offers trust and investment services through a trust service office agreement with FBB. FBB Milwaukee also offers business owners, executives, professionals and high net worth individuals consumer services which include a variety of deposit accounts, personal lines of credit, and personal loans.

In June 2000, FBFS purchased a 51% interest in The Business Banc Group Ltd. (BBG), a corporation formed to act as a bank holding company owning all the stock of a Wisconsin chartered bank to be newly organized and headquartered in Brookfield, a suburb of Milwaukee, Wisconsin. In June 2004 all shares of BBG stock were successfully exchanged for FBFS stock pursuant to a conversion option. Subsequent to this transaction, BBG was dissolved. This transaction resulted in FBB Milwaukee becoming a wholly-owned subsidiary of the Corporation.

In December 2001, FBFS formed FBFS Statutory Trust I (Trust), a statutory trust organized under the laws of the State of Connecticut and a wholly-owned financing subsidiary of FBFS. In December 2001, the Trust issued $10.0 million in aggregate liquidation amount of floating rate trust preferred securities in a private placement offering. These securities mature 30 years after issuance and are callable at face value after five years. The Trust used the proceeds from the offering to purchase $10.3 million of 3 month LIBOR plus 3.60% Junior Subordinated Debentures (the Debentures) of the Corporation. In December 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51, Revised* (FIN 46R) to provide guidance on how to identify a variable interest entity and determine when an entity needs to be included in a company s consolidated financial statements. As a result of the adoption of FIN 46R in 2004, the Trust was no longer consolidated by FBFS. On December 18, 2006 the Corporation exercised its right to redeem the Debentures purchased by the Trust. The Trust subsequently redeemed the preferred securities and the Trust was closed. See **Note 11** to the consolidated financial statements.

Available Information

The Corporation maintains a web site at www.firstbusiness.com. This Form 10-K and all of the Corporation s filings under the Exchange Act are available through that web site, free of charge, including copies of annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports, on the date that the Corporation files those materials with, or furnishes them to, the Securities and Exchange Commission.

Employees

At December 31, 2007, FBFS had 142 employees which include 121.5 full-time equivalent employees. No employee is covered by a collective bargaining agreement, and we believe our relationship with our employees to be excellent.

Supervision and Regulation

Below is a brief description of certain laws and regulations that relate to the Corporation and the Banks. This narrative does not purport to be complete and is qualified in its entirety by reference to applicable laws and regulations.

General.

The Banks are chartered in the State of Wisconsin and are subject to regulation and supervision by the Division of Wisconsin Banking Review Board (the Division), and more specifically the Wisconsin Department of Financial Institutions (WDFI), and are subject to periodic examinations. Review of fiduciary operations is included in the periodic examinations. The Banks deposits are insured by the Deposit Insurance Fund (DIF). The DIF is administered by the Federal Deposit Insurance Corporation (FDIC), and therefore the Banks are also subject to regulation by the FDIC. Periodic examinations of both Banks are also conducted by the FDIC. The Banks must file periodic reports with the FDIC concerning their activities and financial condition and must obtain regulatory approval prior to entering into certain transactions such as mergers with or acquisitions of other depository institutions and opening or acquiring branch offices. This regulatory structure gives the regulatory authorities extensive direction in connection with their supervisory and enforcement activities and examination policies, including policies regarding the classification of assets and the establishment of adequate loan and lease loss reserves.

Wisconsin banking laws restrict the payment of cash dividends by state banks by providing that (i) dividends may be paid only out of a bank s undivided profits, and (ii) prior consent of the Division is required for the payment of a dividend which exceeds current year income if dividends declared have exceeded net profits in either of the two immediately preceding years. The various bank regulatory agencies have authority to prohibit a bank regulated by them from engaging in an unsafe or unsound practice; the payment of a dividend by a bank could, depending upon the circumstances, be considered as such. In the event that (i) the FDIC or the Division should increase minimum required levels of capital; (ii) the total assets of the Banks increase significantly; (iii) the income of the Banks decrease significantly; or (iv) any combination of the foregoing occurs, then the Boards of Directors of the Banks may decide or be required by the FDIC or the Division to retain a greater portion of the Banks earnings, thereby reducing dividends.

The Banks are subject to certain restrictions imposed by the Federal Reserve Act on any extensions of credit to their parent holding company, FBFS. Also included in this Act are restrictions on investments in stock or other securities of FBFS and on taking of such stock or securities as collateral for loans to any borrower. Under this Act and regulations of the Federal Reserve Board, FBFS and its Banks are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit or any property or service.

The Corporation

FBFS is a financial holding company registered under the Bank Holding Company Act of 1956, as amended (the BHCA), and is subject to regulation, supervision, and examination by the Board of Governors of the Federal Reserve System (the FRB). The Corporation is required to file an annual report with the FRB and such other reports as the FRB may require. Prior approval must be obtained before the Corporation may merge with or consolidate into another bank holding company, acquire substantially all the assets of any bank or bank holding company, or acquire ownership or control of any voting shares of any bank or bank holding company if after such acquisition it would own or control, directly or indirectly, more than 5% of the voting shares of such bank or bank holding company.

In reviewing applications for such transactions, the FRB considers managerial, financial, capital and other factors, including financial performance of the bank or banks to be acquired under the Community Reinvestment Act of 1977, as amended (the CRA). Also, under the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, as amended, state laws governing interstate banking acquisitions subject bank holding companies to some limitations in acquiring banks outside of their home state without regard to local law.

The Gramm-Leach Bliley Act of 1999 (the GLB) eliminates many of the restrictions placed on the activities of bank holding companies. Bank holding companies such as FBFS can expand into a wide variety of financial services, including securities activities, insurance, and merchant banking without the prior approval of the FRB.

Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act (SOX) was enacted by the United States Congress to improve the accuracy and reliability of corporate disclosures made pursuant to securities laws, and for other purposes. A primary focus of SOX is to improve the quality and transparency in financial reporting and independent auditor services for public companies. As directed by SOX, the Securities and Exchange Commission (SEC) adopts rules that require conformance with specific sections of SOX. Section 302 of SOX and relating SEC rules require the Corporation s CEO and CFO to certify that they (i) are responsible for establishing, maintaining, and regularly evaluating the effectiveness of the Corporation s internal controls; (ii) have made certain disclosures to the Corporation s auditors and the audit committee of the Corporation s board of directors about the Corporation s internal controls; and (iii) have included information in the Corporation s quarterly and annual reports about their evaluation and whether there have been significant changes in the Corporation s internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect the Corporation.

Section 404 of SOX requires public companies annual reports to (i) include the company s own assessment of internal control over financial reporting, and (ii) include an auditor s attestation regarding the company s internal control over financial reporting. The primary purpose of internal control over financial reporting is to foster the preparation of reliable and accurate financial statements. Since SOX was enacted, however, both requirements of SOX 404 have been postponed for smaller public companies such as the Corporation. The Corporation is subject to the first part of Section 404 of SOX beginning with this annual report. Refer to **Item 9A(T). Controls and Procedures** for the

Corporation s assessment. The requirement of an auditor s attestation per the second part of Section 404 of SOX continues to be postponed per temporary Item 308T of SEC Regulation S-K. Consequently, no auditor attestation accompanies Management s Annual Report on Internal Control Over Financial Reporting in this annual report.

The Banks

As state-chartered DIF-insured banks, the Banks are subject to extensive regulation by the WDFI and the FDIC. Lending activities and other investments must comply with federal statutory and regulatory requirements. This federal regulation establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of the DIF, the FDIC, and depositors.

Insurance of Deposits. The Banks deposits are insured under the DIF of the FDIC. The basic insurance coverage is up to $100,000. Depositors may qualify for additional coverage if the deposit accounts are in different ownership categories. In addition, federal law provides up to $250,000 in coverage for self-directed retirement accounts. The FDIC assigns institutions to a particular capital group based on the levels of the Banks capital well-capitalized, adequately capitalized, or undercapitalized. These three groups are then divided into three subgroups reflecting varying levels of supervisory concern, ranging from those institutions considered to be healthy to those that represent substantial supervisory concern. The result is nine assessment risk classifications, with well-capitalized, financially sound institutions paying lower rates than those paid by undercapitalized institutions that pose a risk to the insurance fund.

The Banks assessment rate depends on the capital category to which they are assigned. Assessment rates for deposit insurance currently range from 0 to 27 basis points. The Banks are well capitalized. The supervisory subgroup to which the Banks are assigned by the FDIC is confidential and may not be disclosed. The Banks rate of deposit insurance assessments will depend upon the category or subcategory to which the Banks are assigned. Any increase in insurance assessments could have an adverse affect on the earnings of the Banks.

Regulatory Capital Requirements. The FRB monitors the capital adequacy of the Banks because on a consolidated basis they have assets in excess of $500.0 million. A combination of risk-based and leverage ratios are determined by the FRB. Failure to meet these capital guidelines could result in supervisory or enforcement actions by the FRB. 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, with perceived credit risk of the asset in mind. These risk weighted assets are calculated by assigning risk-weights to corresponding asset balances to determine the risk-weight of the entire asset base. Total capital, under this definition, 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, with some restrictions, includes common stockholders equity, any perpetual preferred stock, qualifying trust preferred securities, and minority interests in any unconsolidated subsidiaries. Tier 2 capital, with certain restrictions, includes any perpetual preferred stock not included in Tier 1 capital, subordinated debt, any trust preferred securities not qualifying as Tier 1 capital, specific maturing capital instruments and the allowance for loan and lease losses (limited to 1.25% of risk-weighted assets). The regulatory guidelines require a minimum total capital to risk-weighted assets of 8%, of which at least 4% must be in the form of Tier 1 capital. The FRB also has a leverage ratio requirement which is defined as Tier 1 capital divided by average total consolidated assets. The minimum leverage ratio required is 3%.

The Corporation and the Banks actual capital amounts and ratios are presented in the table below and reflect the Banks well-capitalized positions.

	Actual		Minimum Required for Capital Adequacy Purposes		Minimum Required to be Well Capitalized Under Prompt Corrective Action Requirements	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(In thousands)			
As of December 31, 2007						
Total capital (to risk-weighted assets)						
Consolidated	$ 87,018	10.22%	$ 68,119	8.00%	N/A	N/A
First Business Bank	79,072	10.45	60,528	8.00	$ 75,660	10.00%
First Business Bank Milwaukee	9,847	10.26	7,679	8.00	9,599	10.00
Tier 1 capital (to risk-weighted assets)						
Consolidated	$ 46,164	5.42%	$ 34,060	4.00%	N/A	N/A
First Business Bank	71,097	9.40	30,264	4.00	$ 45,396	6.00%
First Business Bank Milwaukee	8,639	9.00	3,840	4.00	5,759	6.00
Tier 1 capital (to average assets)						
Consolidated	$ 46,164	5.12%	$ 36,065	4.00%	N/A	N/A
First Business Bank	71,097	9.04	31,459	4.00	$ 39,324	5.00%
First Business Bank Milwaukee	8,639	7.39	4,678	4.00	5,848	5.00

	Actual		Minimum Required for Capital Adequacy Purposes		Minimum Required to be Well Capitalized Under Prompt Corrective Action Requirements	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(In thousands)			
As of December 31, 2006						
Total capital (to risk-weighted assets)						
Consolidated	$ 73,241	10.40%	$ 56,360	8.00%	N/A	N/A
First Business Bank	64,443	10.49	49,144	8.00	$ 61,430	10.00%
First Business Bank Milwaukee	10,205	11.31	7,218	8.00	9,022	10.00
Tier 1 capital (to risk-weighted assets)						
Consolidated	$ 43,944	6.24%	$ 28,180	4.00%	N/A	N/A
First Business Bank	57,838	9.42	24,572	4.00	$ 36,858	6.00%

First Business Bank Milwaukee	9,070	10.05	3,609	4.00	5,413	6.00
Tier 1 capital (to average assets)						
Consolidated	$ 43,944	5.99%	$ 29,331	4.00%	N/A	N/A
First Business Bank	57,838	9.22	25,086	4.00	$ 31,358	5.00%
First Business Bank Milwaukee	9,070	8.50	4,269	4.00	5,336	5.00

Prompt Corrective Action. The Banks are also subject to capital adequacy requirements under the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), whereby the Banks could be required to guarantee a capital restoration plan, should they become undercapitalized as defined by FDICIA. The maximum liability under such a guarantee would be the lesser of 5% of the Banks total assets at the time they became undercapitalized or the amount necessary to bring the Banks into compliance with the capital restoration plan. The Corporation is also subject to the source of strength doctrine per the FRB, which requires that holding companies serve as a source of financial and managerial strength to their subsidiary banks.

If banks fail to submit an acceptable restoration plan, they are treated under the definition of significantly undercapitalized and would thus be subject to a wider range of regulatory requirements and restrictions. Such restrictions would include activities involving asset growth, acquisitions, branch establishment, establishment of new lines of business and also prohibitions on capital distributions, dividends and payment of management fees to control persons, if such payments and distributions would cause undercapitalization.

The following table sets forth the FDIC s definition of the five capital categories, in the absence of a specific capital directive.

Category	**Total Capital to Risk Weighted Assets**	**Tier 1 Capital to Risk Weighted Assets**	**Tier 1 Leverage Ratio**
Well capitalized	³ 10%	³ 6%	³ 5%
Adequately capitalized	³ 8%	³ 4%	³ 4%*
Undercapitalized	< 8%	< 4%	< 4%*
Significantly undercapitalized	< 6%	< 3%	< 3%
Critically undercapitalized	Ratio of tangible equity to total assets £ 2%		

* 3% if the Banks receive the highest rating under the uniform system.

Limitations on Dividends and Other Capital Distributions. Federal and state regulations impose various restrictions or requirements on state-chartered banks with respect to their ability to pay dividends or make various other distributions of capital. Generally, such laws restrict dividends to undivided profits or profits earned during preceding periods. Also, FDIC insured institutions may not pay dividends while undercapitalized or if such a payment would cause undercapitalization. The FDIC also has authority to prohibit the payment of dividends if such a payment constitutes an unsafe or unsound practice in light of the financial condition of a particular bank. At December 31, 2007, subsidiary unencumbered retained earnings of approximately $37.1 million could be transferred to the Corporation in the form of cash dividends without prior regulatory approval, subject to the capital needs of each subsidiary.

Liquidity. The Banks are required by federal regulation to maintain sufficient liquidity to ensure safe and sound operations. We believe that our Banks have an acceptable liquidity percentage to match the balance of net withdrawable deposits and short-term borrowings in light of present economic conditions and deposit flows.

Federal Reserve System. The Banks are required to maintain non-interest bearing reserves at specified levels against their transaction accounts and non-personal time deposits. As of December 31, 2007, the Banks were in compliance with these requirements. Because required reserves must be maintained in the form of cash or non-interest bearing deposits at the FRB, the effect of this requirement is to reduce the Banks interest-earning assets.

Federal Home Loan Bank System. The Banks are members of the FHLB of Chicago (FHLB). The FHLB serves as a central credit facility for its members. The FHLB is funded primarily from proceeds from the sale of obligations of the FHLB system. It makes loans to member banks in the form of FHLB advances. All advances from the FHLB are required to be fully collateralized as determined by the FHLB.

As a member, each Bank is required to own shares of capital stock in the FHLB in an amount equal to the greatest of $500, 1% of its aggregate unpaid residential mortgage loans, home purchase contracts or similar obligations at the beginning of each year, or 20% of its outstanding advances. The FHLB also imposes various limitations on advances relating to the amount and type of collateral, the amount of advances and other items. At December 31, 2007, the Banks owned a total of $2.4 million in FHLB stock and were in compliance with their respective requirements. The Banks received combined dividends from the FHLB totaling $46,000 for the year ended December 31, 2007 as compared to $82,000 for the year ended December 31, 2006.

On October 10, 2007, FHLB announced via Form 8-K that it has entered into a consensual cease and desist order with its regulator, the Federal Housing Finance Board. Under the terms of the order, capital stock repurchases and redemptions, including redemptions upon membership withdrawal or other termination, are prohibited unless FHLB has received approval of the Director of the Office of Supervision of the Finance Board. As a result of this consensual cease and desist order, the Banks do not expect dividend income from its holdings of FHLB stock to be a significant source of income for the foreseeable future. The Banks currently hold $2.4 million, at cost, of FHLB stock, of which $641,000 is deemed voluntary stock. At this time, we believe we will ultimately recover the value of this stock. Refer to **Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources** for further discussion relating to the impact of this order on our ability to obtain resources from the FHLB to meet the liquidity needs of the Banks.

Restrictions on Transactions with Affiliates. The Banks loans to their own and the Corporation s executive officers, directors and owners of greater than 10% of any of their respective stock (so-called insiders) and any entities affiliated with such insiders are subject to the conditions and limitations under Section 23A of the Federal Reserve Act and the Federal Reserve Bank s Regulation O. Under these regulations, the amount of loans to any insider is limited to the same limit imposed in the loans-to-one borrower limits of the respective Banks. All loans to insiders must not exceed the Banks unimpaired capital and unimpaired surplus. Loans to executive officers, other than loans for the education of the officers children and certain loans secured by the officers residence, may not exceed the greater of $25,000 or 2.5% of the Banks unimpaired capital and unimpaired surplus, and may never exceed $100,000. Regulation O also requires that loans to insiders must be approved in advance by a majority of the Board of Directors, at the bank level. Such loans, in general, must be made on substantially the same terms as, and with credit underwriting procedures no less stringent than those prevailing at the time for, comparable transactions with other persons.

The Banks can make exceptions to the foregoing procedures if they offer extensions of credit that are widely available to employees of the Banks and that do not give any preference to insiders over other employees of the Banks.

Community Reinvestment Act. The Community Reinvestment Act (CRA) requires each Bank to have a continuing and affirmative obligation in a safe and sound manner to help meet the credit needs of its entire community, including low and moderate income neighborhoods. Federal regulators regularly assess the Banks record of meeting the credit needs of their respective communities. Applications for additional acquisitions would be affected by the evaluation of the Banks effectiveness in meeting its CRA requirements.

Riegle Community Development and Regulatory Improvement Act of 1994. Federal regulators have adopted guidelines establishing general standards relating to internal controls, information and internal audit systems, loan documentation, credit underwriting, interest rate risk, asset growth, asset quality, earnings and compensation, fees, and benefits. These guidelines require, in general, that appropriate systems and practices are in place to identify and manage the risks and exposures specified by the guidelines. Such prohibitions include excessive compensation when amounts paid appear to be unreasonable or disproportionate to the services performed by executive officers, employees, directors or principal shareholders.

USA PATRIOT Act of 2001. The USA PATRIOT Act requires banks to establish anti-money laundering programs; to establish due diligence policies, procedures, and controls with respect to private banking accounts and correspondent banking accounts involving foreign individuals and specific foreign banks; and to avoid establishing, maintaining, administering or managing correspondent accounts in the United States for or on behalf of foreign banks that maintain no presence in any country. Additionally, the USA PATRIOT Act encourages cooperation among financial institutions, regulatory authorities, and law enforcement with respect to individuals or organizations that could reasonably be suspected of engaging in terrorist activities. Federal regulators have begun proposing and implementing regulations in efforts to interpret the USA PATRIOT Act. The Banks must comply with Section 326 of the Act which provides for minimum procedures in the verification of identification of new customers.

Commercial Real Estate Guidance. The FDIC s Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices (CRE Guidance) provides supervisory criteria, including the following numerical indicators, to assist bank examiners in identifying banks with potentially significant commercial real estate loan concentrations that may warrant greater supervisory scrutiny: (1) commercial real estate loans exceed 300% of capital and increased 50% or more in the preceding three years, or (2) construction and land development loans exceed 100% of capital. The CRE Guidance does not limit banks levels of commercial real estate lending activities but rather guides institutions in developing risk management practices and levels of capital that are commensurate with the level and nature of their commercial real estate concentrations. Based on our current loan portfolio, the CRE Guidance applies to the Banks. We believe that we have taken appropriate precautions to address the risks associated with our concentrations in commercial real estate lending. We do not expect the Guidance to adversely affect our operations or our ability to execute our growth strategy.

Fair and Accurate Transactions Act of 2003. In November 2007, the OCC, FDIC, OTS, NCUA and FTC (the Agencies) issued final rules and guidelines implementing section 114 of the Fair and Accurate Credit Transactions Act of 2003 (FACT Act) and final rules implementing section 315 of the FACT Act. The rules implementing Section 114 require each financial institution or creditor to develop and implement a written identity theft prevention program to detect, prevent and mitigate identity theft in connection with opening of certain accounts or certain existing accounts. Certain events such as a change of address, returned mail, a request for replacement debit or credit card or efforts to reactivate dormant account may signal potential fraud. Additionally, the Agencies issued joint rules under Section 315 that provide guidance regarding reasonable policies and process that a user of consumer reports must employ when a consumer reporting agency sends us a notice of address discrepancy. Sections 114 and 315 of the FACT Act are effective January 1, 2008 with mandatory compliance required by November 1, 2008. The Banks will be in full compliance by this mandatory date.

Changing Regulatory Structure. Regulation of the activities of national and state banks and their holding companies imposes a heavy burden on the banking industry. The FRB, FDIC, and WDFI all have extensive authority to police unsafe or unsound practices and violations of applicable laws and regulations by depository institutions and their holding companies. These agencies can assess civil monetary penalties, issue cease and desist or removal orders, seek injunctions, and publicly disclose such actions. Moreover, the authority of these agencies has expanded in recent years, and the agencies have not yet fully tested the limits of their powers.

The laws and regulations affecting banks and financial or bank holding companies have changed significantly in recent years, and there is reason to expect changes will continue in the future, although it is difficult to predict the outcome of these changes. From time to time, various bills are introduced in the United States Congress with respect to the regulation of financial institutions. Certain of those proposals, if adopted, could significantly change the regulation of banks and the financial services industry.

Monetary Policy. The monetary policy of the FRB has a significant effect on the operating results of financial or bank holding companies and their subsidiaries. Among the means available to the FRB to affect the money supply are open market transactions in U.S. government securities, changes in the discount rate on member bank borrowings and changes in reserve requirements against member bank deposits. These means are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits, and their use may affect interest rates charged on loans or paid on deposits.

Competition. The Banks encounter strong competition in attracting commercial loan, equipment finance and deposit clients as well as trust and investment clients. Such competition includes banks, savings institutions, mortgage banking companies, credit unions, finance companies, equipment finance companies, mutual funds, insurance companies, brokerage firms and investment banking firms. The Banks market areas include branches of several commercial banks that are substantially larger in terms of loans and deposits. Furthermore, tax exempt credit unions operate in most of the Banks market areas and aggressively price their products and services to a large portion of the market. The Banks also compete with regional and national financial institutions, many of which have greater liquidity, higher lending limits, greater access to capital, more established market recognition and more resources and collective experience than the Banks. Our profitability depends upon the Banks continued ability to successfully maintain and increase market share.

Executive Officers of the Registrant

The following contains certain information about the executive officers of FBFS. There are no family relationships between any directors or executive officers of FBFS.

Corey A. Chambas, age 45, has served as Chief Executive Officer of First Business Financial Services, Inc. since December, 2006, as President of the Corporation since February, 2005, and as a Director since July, 2002. He served as Chief Operating Officer of the Corporation from February, 2005 to September, 2006, and as Executive Vice President of the Corporation from July, 2002 to February, 2005. He served as Chief Executive Officer of First Business Bank from July, 1999 to September, 2006 and as President of First Business Bank from July, 1999 to February, 2005. He currently serves as a Director of First Business Bank-Milwaukee, First Business Equipment Finance, LLC, First Business Capital Corp., First Madison Investment Corp. and FMCC Nevada Corp.

James F. Ropella, age 48, has served as Senior Vice President and Chief Financial Officer of the Corporation since September, 2000. Mr. Ropella also serves as the Chief Financial Officer of the subsidiaries of the Corporation. He currently serves as a Director of First Madison Investment Corp. and FMCC Nevada Corp.

Joan A. Burke, age 56, has served as President of First Business Bank s Trust Division since September, 2001. Prior to that, from November, 1996 to May, 2001, Ms. Burke was the President, Chief Executive Officer and Chairperson of the Board of Johnson Trust Company and certain of its affiliates.

Mark J. Meloy, age 46, has served as Chief Executive Officer of First Business Bank since December 2007 and was elected President and a Director of First Business Bank in September, 2006. He served as Executive Vice President of First Business Bank from September, 2004 to September, 2006. He served as President and Chief Executive Officer of First Business Bank-Milwaukee from January, 2003 to October, 2004, and as a Director from November, 2002 to October, 2004. From November, 2002 to December 2002, he served as Executive Vice President and Chief Operating Officer of First Business Bank-Milwaukee. From April 2000, to November, 2002 he served as Senior Vice President and Senior Lending Officer at First Business Bank. He currently serves as a Director of First Business Equipment Finance, LLC and First Business Capital Corp.

Michael J. Losenegger, age 50, has served as Chief Operating Officer of the Corporation since September 2006. He has also served as Chief Executive Officer of First Business Bank from September 2006 December 2007. He was elected President and a Director of First Business Bank in February, 2005. He served as Chief Operating Officer of First Business Bank from September, 2004 to February, 2005. He served as Senior Vice President-Business Development from February, 2003 to September, 2004. Prior to that, from March, 1989 to January, 2003, Mr. Losenegger served as Assistant Vice President and Vice President and Senior Vice President of Lending at M&I Bank in Madison, Wisconsin. He currently serves as a Director of First Business Equipment Finance, LLC, First Business Capital Corp., First Madison Investment Corp. and FMCC Nevada Corp.

Charles H. Batson, age 54, joined the Corporation and was elected President and Chief Executive Officer of First Business Capital Corp. in January, 2006. Prior to joining the Corporation, from February 1986 to December, 2005, Mr. Batson served as Vice President and Business Development Manager for Wells Fargo Business Credit, Inc. He currently serves as a Director of First Business Capital Corp.

David J. Vetta, age 53, joined the Corporation and was elected President and Chief Executive Officer of First Business Bank-Milwaukee in January 2007. Prior to joining the Corporation he was Managing Director at Fifth Third Bank and Managing Director at JP Morgan Chase for nearly 30 years. He currently serves as a Director of First Business Bank Milwaukee.

Item 1a. Risk Factors

You should carefully read and consider the following risks and uncertainties because they could materially and adversely affect our business, financial condition, results of operations and prospects.

Competition. The Banks encounter strong competition in attracting commercial loan, equipment finance and deposit clients as well as trust and investment clients. Such competition includes banks, savings institutions, mortgage banking companies, credit unions, finance companies, equipment finance companies, mutual funds, insurance companies, brokerage firms and investment banking firms.

The Banks   market areas include branches of several commercial banks that are substantially larger in terms of loans and deposits. Furthermore, tax exempt credit unions operate in most of the Banks   market areas and aggressively price their products and services to a large portion of the market. The Banks also compete with regional and national financial institutions, many of which have greater liquidity, higher lending limits, greater access to capital, more established market recognition and more resources and collective experience than the Banks. Our profitability depends upon the Banks   continued ability to successfully maintain and increase market share.

We believe the principal factors that are used to attract core deposit accounts and that distinguish one financial institution from another include rates of return, types of accounts, service fees, convenience of office locations and hours and quality of service to the depositors. We believe the primary factors in competing for commercial loans are interest rates, loan fee charges, loan structure and timeliness and quality of service to the borrower.

Government Regulation and Monetary Policy. Our businesses are subject to extensive state and federal government supervision, regulation, and control. Existing state and federal banking laws subject us to substantial limitations with respect to loans, purchases of securities, payment of dividends and many other aspects of our businesses. See **Item 1. Business   Supervision and Regulation.** There can be no assurance that future legislation or government policy will not adversely affect the banking industry or our operations. In addition, economic and monetary policy of the Federal Reserve may increase our cost of doing business and affect its ability to attract deposits and make loans.

Key Personnel. Our success has been and will be greatly influenced by our continuing ability to retain the services of our existing senior management and, as it expands, to attract and retain additional qualified senior and middle management. If we unexpectedly lose any of the key management personnel, or we are unable to recruit and retain qualified personnel in the future, that could have an adverse effect on our business and financial results.

Technology. The banking industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. In addition to better serving clients, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend in part on our ability to address the needs of our clients by using technology to provide products and services that will satisfy client demands for convenience as well as create additional efficiencies in our operations. A number of our competitors have substantially greater resources to invest in technological improvements. There can be no assurance that we will be able to implement new technology-driven products and services to our clients.

Market Area. The origination of loans secured by real estate and business assets of those businesses is the Banks primary business and the principal source of profits. Most of the Banks   loans are to businesses located in or adjacent to Dane, Waukesha and Outagamie Counties in Wisconsin. Client demand for loans could be reduced by a weaker economy, an increase in unemployment, a decrease in real estate values, or an increase in interest rates in these areas. Any general adverse change in the economic conditions, including real estate values, prevailing in these areas could reduce the Banks   growth rate, impair their ability to collect loans or attract deposits, and generally have an adverse impact on our results of operations and financial condition. If this region experienced adverse economic, political or business conditions, the Banks would likely experience higher rates of loss and delinquency on their loans than if their loans were geographically more diverse.

Loan Portfolio Risk. The Banks originate commercial mortgage, construction, multi-family, 1-4 family, commercial, asset-based, consumer loans, and leases, all of which are primarily within their respective market areas. Such loans expose the Banks to greater credit risk than home mortgages which form a greater part of the business of many commercial banks, because the collateral securing these loans may not be sold as easily as residential real estate. These loans also have greater credit risk than residential real estate for the following reasons:

Commercial mortgage loan repayment is dependent upon cash flow generation sufficient to cover operating expenses and debt service.

Commercial loan repayment is dependent upon the successful operation of the borrower s business.

Consumer loans such as credit card loans and vehicle loans are collateralized, if at all, with assets that may not provide an adequate source of payment of the loan due to depreciation, damage or loss.

Environmental Risk. The Banks encounter certain environmental risks in their lending activities. Under federal and state law, Banks may become liable for costs of cleaning up hazardous materials found on secured properties. Certain states may also impose liens with higher priorities than first mortgages on properties to recover funds used in such efforts. The Banks attempt to control their exposure to environmental risks with respect to loans secured by larger properties by monitoring available information on hazardous waste disposal sites and occasionally requiring environmental inspections of such properties prior to closing a loan, as warranted. No assurance can be given, however, that the value of properties securing loans in the Banks portfolio will not be adversely affected by the presence of hazardous materials or that future changes in federal or state laws will not increase the Banks exposure to liability for environmental cleanup.

Loan and Lease Loss Allowance Risk. The Banks are exposed to the risk that their loan and lease clients may not repay their loans and leases according to their terms and that the collateral securing the payment of these loans and leases may be insufficient to assure repayment. The Banks may experience significant loan and lease losses which could have a material adverse impact on operating results. There is a risk that various assumptions and judgments about the collectibility of the loan and lease portfolios made by us could be formed from inaccurately assessed conditions leading to and related to such judgments and assumptions. Those assumptions and judgments are based, in part, on assessment of the following conditions:

Current economic conditions and their estimated effects on specific borrowers;

An evaluation of the existing relationships among loans and leases, probable loan and lease losses and the present level of the allowance for loan and lease losses;

Results of examinations of the Banks loan and lease portfolios by regulatory agencies;

Management s internal review of the loan and lease portfolios.

The Banks maintain an allowance for loan and lease losses to cover probable losses inherent in the loan and lease portfolios. Additional loan and lease losses will likely occur in the future and may occur at a rate greater than that experienced to date. An analysis of the loan and lease portfolios, historical loss experience and an evaluation of general economic conditions are all utilized in determining the size of the allowance. Additional adjustments may be necessary to allow for unexpected volatility or deterioration in the local or national economy. If significant additions are made to the allowance for loan and leases losses, this would materially decrease net income. Additionally, regulators periodically review the allowance for loan and lease losses or identify further loan or lease charge-offs to be recognized based on judgments different from ours. Any increase in the loan or lease allowance or loan or lease charge-offs as required by regulatory agencies could have a material adverse impact on net income.

Interest Rate Risk. We are subject to interest rate risk. Changes in the interest rate environment may reduce our profits. Net interest spreads are affected by the difference between the maturities and repricing characteristics of interest-earning assets and interest-bearing liabilities. They are also affected by the proportion of interest-earning assets that are funded by interest-bearing liabilities. Loan volume and yield are affected by market interest rates on loans, and increasing interest rates are generally associated with a lower volume of loan originations. There is no assurance that we can minimize our interest rate risk. In addition, an increase in the general level of interest rates may adversely affect the ability of certain borrowers to pay their obligations if the reason for that increase in rates is not a result of a general expansion of the economy. Accordingly, changes in levels of market interest rates could materially and adversely affect our net interest spread, asset quality, loan origination volume and overall profitability.

Trust Operations Risk. We are subject to trust operations risk related to performance of fiduciary responsibilities. Clients may make claims and take legal action pertaining to our performance of our fiduciary responsibilities. Whether client claims and legal action related to our performance of our fiduciary responsibilities are founded or unfounded, if such claims and legal actions are not resolved in a manner favorable to us, they may result in significant financial liability and/or adversely affect the market perception of us and our products and services, as well as impact client demand for those products and services. Any financial liability or reputation damage could have a material adverse affect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

Economic Conditions. Our success depends on the economic conditions in the US and general economic conditions in the specific local markets in which the Banks and subsidiaries operate, principally in Dane County, Wisconsin area and to a lesser extent, Waukesha County, Wisconsin. The Banks invest in collateralized mortgage obligations as a part of their asset portfolios due to the liquidity, favorable returns and flexibility with these instruments. In recent months, structured investments, such as collateralized mortgage obligations, have been subject to significant market volatility due to the uncertainty of their credit ratings, deterioration in credit quality occurring within certain types of residential mortgages, changes in prepayments of the underlying collateral and the lack of transparency related to the credit quality of the underlying collateral. In addition, the Banks use brokered certificates of deposit as a component of their deposit accounts due to favorable pricing and range of maturities available. A decline in the US economy or an extended disruption in the credit markets could have an adverse affect on the pricing, terms, liquidity and/or availability of these instruments.

Adverse economic conditions in our market area, including depressed real estate values, could reduce our growth rate, affect borrowers ability to repay their loans, and cause loans to become inadequately collateralized which could have an adverse affect on our financial condition and results of operations.

Item 1b. Unresolved Staff Comments

None

Item 2. Properties

At December 31, 2007, the Banks conducted business from their full service offices located in Madison, Wisconsin at 401 Charmany Drive and in Brookfield, Wisconsin located at 18500 W. Corporate Drive. The Banks lease their full-service offices and these leases expire in 2016 and 2010, respectively. FBB opened a loan production office at 3919 West Prospect Avenue, Appleton, Wisconsin in December 2007 and this lease expires in 2017. FBB conducts trust and investment business from a limited purpose branch located at 3500 University Avenue, Madison, Wisconsin. Office space is also leased in Burnsville, Minnesota, Independence, Ohio, St. Louis, Missouri, Chicago, Illinois, and Oshkosh, Wisconsin under short-term lease agreements which have terms of less than one year. See **Note 7** to the Consolidated Financial Statements for more information regarding leasehold improvements and equipment. See **Note 14** to the Consolidated Financial Statements for more information regarding the operating lease agreements.

Item 3. Legal Proceedings

We believe that no litigation is threatened or pending in which we face potential loss or exposure which could materially affect our consolidated financial position, consolidated results of operations or cash flows. Since our subsidiaries act as depositories of funds and trust agents, they could occasionally be named as defendants in lawsuits involving claims to the ownership of funds in particular accounts. This and other litigation is incidental to our business.

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

No matters were submitted to a vote of security holders during the fourth quarter of 2007.

PART II.

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The common stock of the Corporation is traded on the Nasdaq National Market under the symbol FBIZ . At February 29, 2008, there were approximately 501 shareholders of record of FBFS common stock.

The following table presents the range of high and low closing sale prices of our common stock for each quarter within the two most recent fiscal years, according to information available, and cash dividends declared for the years ended December 31, 2007 and 2006, respectively.

	High	Low	Dividend Declared
2007			
1st Quarter	$ 22.67	$ 21.26	$ 0.065
2nd Quarter	22.50	19.80	0.065
3rd Quarter	20.93	17.70	0.065
4th Quarter	19.05	17.50	0.065
2006			
1st Quarter	$ 24.00	$ 21.50	$ 0.06
2nd Quarter	24.84	22.76	0.06
3rd Quarter	24.50	22.02	0.06
4th Quarter	23.00	21.51	0.06

The timing and amount of future dividends are at the discretion of the Board of Directors of the Corporation (the Board) and will depend upon the consolidated earnings, financial condition, liquidity and capital requirements of the Corporation and its subsidiaries, the amount of cash dividends paid to the Corporation by its subsidiaries, applicable government regulations and policies and other factors considered relevant by the Board. The Board anticipates it will continue to pay quarterly dividends in amounts determined based on the above factors.

Equity Compensation Plan Information

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants, and Rights. (a)	Weighted-average Exercise Price of Outstanding Options, Warrants, and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	159,540	$ 22.10	431,129

On November 20, 2007, the Corporation publicly announced a stock repurchase program whereby the Corporation would repurchase up to approximately $1,000,000 of the Corporation s outstanding stock.

Issuer Purchases of Securities

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number that May Yet be Purchased Under the Plans or Programs
October 1 31, 2007	-	-	-	-
November 1 30, 2007	30,000	$ 19.00	30,000	23,691
December 1 31, 2007	14,000	$ 18.06	14,000	10,122

Item 6. Selected Consolidated Financial Data

Three Year Comparison of Selected Consolidated Financial Data

	As of and For the Year Ended December 31,		
	2007	2006	2005
	(Dollars in Thousands, Except Share Data)		
FOR THE YEAR:			
Interest income	$ 59,488	$ 47,660	$ 36,509
Interest expense	36,280	28,689	18,733
Net interest income	23,208	18,971	17,776
Provision for loan and lease losses	2,904	1,519	400
Gain on sale of 50% owned joint venture	-	-	973
Non-interest income	4,416	3,674	3,266
Non-interest expense	19,657	15,698	14,403
Income tax expense	1,807	1,681	2,455
Net income	$ 3,256	$ 3,747	$ 4,757
Yield on earning assets	7.36%	7.21%	6.22
Cost of funds	4.91	4.77	3.59
Interest rate spread	2.45	2.44	2.62
Net interest margin	2.87	2.87	3.03
Return on average assets	0.39	0.54	0.78
Return on average equity	6.86	8.65	11.79
ENDING BALANCE SHEET:			
Total Assets	$ 918,438	$ 788,323	$ 669,249
Securities	97,378	100,008	92,055
Loans and leases, net	771,633	639,867	532,716
Deposits	776,060	640,266	567,464
Borrowed funds	81,986	92,970	39,758
Junior subordinated debentures	-	-	10,310
Stockholders equity	48,552	45,756	41,843
FINANCIAL CONDITION ANALYSIS:			
Allowance for loan losses to year-end loans	1.26%	1.28%	1.25%
Allowance to non-accrual loans	111.17	748.06	438.67
Net charge-offs to average loans	0.19	-	-
Non-accrual loans to gross loans	1.13	0.17	0.29
Average equity to average assets	5.64	6.26	6.61
STOCKHOLDERS DATA:			
Basic earnings per share	$ 1.33	$ 1.53	$ 1.96
Diluted earnings per share	1.32	1.52	1.93
Book value per share at end of period	19.35	18.36	17.18
Dividend declared per share	0.26	0.24	0.175

Dividend payout ratio	19.55%	15.68%	8.93%
Shares outstanding	2,509,213	2,493,578	2,435,008

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

When used in this report, and in any oral statements made with the approval of an authorized executive officer, the words or phrases may, could, should, hope, might, believe, expect, plan, assume, intend, estima likely, or similar expressions are intended to identify forward-looking statements. Such statements are subject to risks and uncertainties, including, without limitation, changes in economic conditions in the market area of FBB or FBB Milwaukee, changes in policies by regulatory agencies, fluctuation in interest rates, demand for loans in the market area of FBB or FBB Milwaukee, borrowers defaulting in the repayment of loans and competition. These risks could cause actual results to differ materially from what FBFS has anticipated or projected. These risk factors and uncertainties should be carefully considered by potential investors. See **Item 1A, Risk Factors** for discussion relating to risk factors impacting the Corporation. Investors should not place undue reliance on any such forward-looking statements, which speak only as of the date made. The factors described within this Form 10-K could affect the financial performance of FBFS and could cause actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods.

Where any such forward-looking statement includes a statement of the assumptions or bases underlying such forward-looking statement, FBFS cautions that, while its management believes such assumptions or bases are reasonable and are made in good faith, assumed facts or bases can vary from actual results, and the differences between assumed facts or bases and actual results can be material, depending on the circumstances. Where, in any forward-looking statement, an expectation or belief is expressed as to future results, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the statement of expectation or belief will result in, or be achieved or accomplished.

FBFS does not intend to, and specifically disclaims any obligation to, update any forward-looking statements.

The following discussion and analysis is intended as a review of significant events and factors affecting the financial condition and results of operations of FBFS for the periods indicated. The discussion should be read in conjunction with the Consolidated Financial Statements and the Notes thereto and the Selected Consolidated Financial Data presented in this Form 10-K.

Overview

The principal business of FBFS is conducted by FBB and FBB Milwaukee and certain subsidiaries of FBB and consists of a full range of commercial banking products and services tailored to meet the financial service needs of small and medium size businesses, business owners, executives, professionals, and high net worth individuals. Products include commercial lending, asset-based lending, equipment financing, trust and investment services and a broad range of deposit products. Our profitability depends on our ability to execute our established growth strategy and on the outcome of efforts in controlling the areas of net interest income, provision for loan and lease losses, non-interest income, and non-interest expenses.

The operating philosophy of FBFS is focused on local decision making and local client service from each of our primary banking locations in Madison, Brookfield and Appleton, Wisconsin combined with the efficiency of centralized administrative functions such as support for information technology, finance and accounting and human resources. We have a unique niche business banking model and we consistently operate within this niche. This allows us to provide a great deal of expertise in providing financial solutions to our clients with an experienced staff to serve our clients on an ongoing basis. In 2007, our primary strategy was to focus on organic growth. We have made a substantial investment in our business development team throughout our entire company to allow us to execute this organic growth strategy in both on balance sheet assets and liabilities, including growth in our loan and lease portfolios and in-market deposit portfolios as well as in our off-balance sheet assets, which include our assets under management within our trust division of FBB. The increase in the off-balance sheet trust assets under management drives a significant portion of our fee income and is a key component to achieving our Top Line Revenue growth targets which is discussed in further detail elsewhere in this document.

Net interest income is the difference between the income we receive on our loans, leases and investment securities, and the interest we pay on our deposits and borrowings. The provision for loan and lease losses reflects the cost of credit risk in the loan and lease portfolio. Non-interest income consists of service charges on deposit accounts, securities gains, loan and lease fees, trust and investment services fee income, and other income. Non-interest expenses include salaries and employee benefits, occupancy, equipment expenses, professional services, marketing expenses, and other non-interest expenses.

Recent Developments

Tax Audit. Like the majority of financial institutions located in Wisconsin, FBB transferred investment securities and loans to out-of-state investment subsidiaries. FBB s Nevada investment subsidiaries now hold and manage these assets. The investment subsidiaries have not filed returns with, or paid income or franchise taxes to, the State of Wisconsin. The Wisconsin Department of Revenue (the Department) implemented a program to audit Wisconsin financial institutions which formed investment subsidiaries located outside of Wisconsin, and the Department has generally indicated that it intends to assess income or franchise taxes on the income of the out-of-state investment subsidiaries of Wisconsin financial institutions. FBB received a Notice of Audit from the Department that would cover years 1999 through 2005 and would relate primarily to the issue of income of the Nevada subsidiaries. During 2007, FBCC received a Notice of Audit from the Department that would cover the years 2001 through 2005. During 2004, the Department offered a blanket settlement agreement to most banks in Wisconsin having Nevada investment subsidiaries. The Department has not issued an assessment to FBB or FBCC, but the Department has stated that it intends to do so if the matter is not settled.

Prior to the formation of the investment subsidiaries FBB obtained private letter rulings from the Department regarding the non-taxability of income generated by the investment subsidiaries in the State of Wisconsin. FBB believes it complied with Wisconsin law and the private rulings received from the Department. Should an assessment be forthcoming, FBB intends to defend its position vigorously through the normal administrative appeals process in place at the Department and through other judicial channels should they become necessary. Although FBB will vigorously oppose any such assessment, there can be no assurance that the Department will not be successful in whole or in part in its efforts to tax the income of FBB s Nevada investment subsidiary. FBB and FBCC have accrued, as a component of current state income tax expense, an estimated liability including interest which is the most likely amount within a range of probable settlement amounts. We do not expect the resolution of this matter to materially affect its consolidated results of operations and financial position beyond the amounts accrued.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, changes in these assumptions and estimates could significantly affect the financial position or results of operations for FBFS. Actual results could differ from those estimates. Please refer to **Note 1** to the Consolidated Financial Statements for a discussion of the most significant accounting policies followed by the Corporation. Discussed below are certain policies that are critical to FBFS. We view critical accounting policies to be those which are highly dependent on subjective or complex judgments, estimates, and assumptions, and where changes in those estimates and assumptions could have a significant impact on the financial statements.

Allowance for Loan and Lease Losses. The allowance for loan and lease losses represents our recognition of the risks of extending credit and its evaluation of the quality of the loan and lease portfolio and as such, requires the use of judgment as well as other systematic objective and quantitative methods. The risks of extending credit and the accuracy of our evaluation of the quality of the loan and lease portfolio are neither static nor mutually exclusive and could result in a material impact on our consolidated financial statements. We could over-estimate the quality of the loan and lease portfolio resulting in a lower allowance for loan and lease losses than necessary, overstating net income and equity. Conversely, we could under-estimate the quality of the loan and lease portfolio, resulting in a higher allowance for loan and lease losses than necessary, understating net income and equity. The allowance for loan and lease losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan and lease losses and decreased by charge-offs, net of recoveries. We estimate the allowance balance required and the related provision for loan and lease losses based on quarterly evaluations of the loan and lease portfolio, with particular attention paid to loans and leases that have been specifically identified as needing additional management analysis because of the potential for further problems. During these evaluations, consideration is also given to such factors as the level and composition of impaired and other non-performing loans and leases, historical loss experience, results of examinations by regulatory agencies, independent loan and lease reviews, the market value of collateral, the strength and availabilities of guarantees, concentration of credits and other factors. Allocations of the allowance may be made for specific loans or leases, but the entire allowance is available for any loan or lease that, in our judgment, should be charged off. Loan and lease losses are charged against the allowance when we believe that the uncollectibility of a loan or lease balance is confirmed. See **Note 6** to the Consolidated Financial Statements for further discussion of the allowance for loan and lease losses.

We also continue to pursue all practical and legal methods of collection, repossession and disposal, and adheres to high underwriting standards in the origination process in order to continue to maintain strong asset quality. Although we believe that the allowance for loan and lease losses is adequate based upon current evaluation of loan and lease delinquencies, non-performing assets, charge-off trends, economic conditions and other factors, there can be no assurance that future adjustments to the allowance will not be necessary. Should the quality of loans or leases deteriorate, then the allowance for loan and lease losses would generally be expected to increase relative to total loans and leases. When loan or lease quality improves, then the allowance would generally be expected to decrease relative to total loans and leases.

Income Taxes. FBFS and its wholly owned subsidiaries file a consolidated federal income tax return and separate state tax returns. Deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The determination of current and deferred income taxes is based on complex analyses of many factors, including the interpretation of federal and state income tax laws, the difference between the tax and financial reporting basis of assets and liabilities (temporary differences), estimates of amounts currently due or owed, such as the timing of reversals of temporary differences and current accounting standards. Prior to January 1, 2007, we accrued through our current income tax provision, the amounts it deems probable of assessment related to federal and state income tax expenses. Such accruals would be reduced when such taxes are paid or reduced by way of a credit to the current income tax provision when it is no longer probable that such taxes will be paid. Beginning January 1, 2007, we apply a more likely than not approach to each of our tax positions when determining the amount of tax benefit to record in our consolidated financial statements. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred taxes is recognized in income in the period that includes the enactment date.

FBFS and its subsidiaries have State of Wisconsin net operating loss (NOL) carryforwards as of December 31, 2007 of approximately $43.0 million, which expire in years 2007 through 2022. See **Note 15** to the Consolidated Financial Statements for further discussion of income taxes. The federal and state taxing authorities who make assessments based on their determination of tax laws periodically review our interpretation of federal and state income tax laws. Tax liabilities could differ significantly from the estimates and interpretations used in determining the current and deferred income tax liabilities based on the completion of taxing authority examinations.

We have made our best estimate on valuation allowances needed for deferred tax assets on certain net operating loss carryforwards and other temporary differences and have made our best estimate of the probable loss related to a state tax exposure matter. These estimates are subject to changes. Changes in these estimates could adversely affect future consolidated results of operations.

As noted elsewhere herein, in June 2004, Business Banc Group LTD (BBG) shareholders completed the exchange of their 49% minority ownership in BBG to FBFS for shares of FBFS. This event resulted in FBFS owning 100% of BBG shares. BBG was subsequently dissolved and as a result, FBB Milwaukee became a direct wholly-owned subsidiary of FBFS. Since 2004, FBFS has filed a consolidated federal tax return with FBB Milwaukee enabling the usage of FBB Milwaukee s NOL carryforwards to offset consolidated federal taxable income, subject to certain IRS annual limitations. This event increases further the probability that all of the benefits related to these NOL carryforwards will be fully realized. We will continue to evaluate the probability of the usage of the NOL carryforwards and if in the future it is no longer deemed more likely than not that the benefit of the NOL carryforwards will be realized, then a valuation allowance will be established through a charge to income tax expense. At December 31, 2007, $447,000 of the BBG Federal NOL remains.

Lease Residuals. We lease machinery and equipment to clients under leases which qualify as direct financing leases for financial reporting and as operating leases for income tax purposes. Under the direct financing method of accounting, the minimum lease payments to be received under the lease contract, together with the estimated unguaranteed residual value (approximating 3 to 20% of the property cost of the related equipment), are recorded as lease receivables when the lease is signed and the lease property is delivered to the client. Residual value is the estimated fair market value of the equipment on lease at lease termination. In estimating the equipment s fair value, we rely on historical experience by equipment type and manufacturer published sources of used equipment prices, internal evaluations and, where available, valuations by independent appraisers, adjusted for known trends. Our estimates are reviewed regularly to ensure reasonableness; however, the amounts we will ultimately realize could differ from the estimated amounts. Where declines in residual amounts are estimated to be other-than-temporary, the residual amount is reduced and a loss is recorded. See **Note 6** to the Consolidated Financial Statements for further discussion of leases and lease residuals.

Goodwill and Other Intangible Assets. Goodwill was recorded as a result of the acquisition of the 49% interest in BBG on June 1, 2004, the purchase price of which exceeded the fair value of the net assets acquired. Goodwill is reviewed at least annually for impairment. Because of adverse changes in the business climate, the Corporation performed an additional goodwill impairment test as of December 31, 2007. This review requires judgment. If goodwill is determined to be impaired, a reduction in value would be expensed in the period in which it became impaired. No impairments has been recognized for the years ended December 31, 2007 and 2006. See **Note 1 and Note 8** to the Consolidated Financial Statements for further discussion of goodwill and other intangibles.

Judgment is also used in the valuation of other intangible assets consisting of a core deposit intangible and a client list from a purchased brokerage/investment business. Core deposit intangibles were recorded for core deposits acquired in the BBG acquisition which was accounted for as a purchase business combination. The core deposit intangible assets were recorded under the presumption that they provide a more favorable source of funding than wholesale borrowings. An intangible asset was recorded for the present value of the difference between the expected interest to be incurred on these deposits and interest expense that would be expected if these deposits were replaced by wholesale borrowings, over the expected lives of the core deposits. The current estimate of the underlying lives of core deposits is fifteen years and ten years for the client list. If it is determined that the deposits or the client list have shorter lives, the assets will be adjusted and an expense will be recorded for the amount that is impaired.

Results of Operations

Comparison of the Years Ended December 31, 2007 and 2006

Overview. Net income for the year ended December 31, 2007 was $3.3 million, a decline of 13.1%, or $491,000, from $3.7 million for the year ended December 31, 2006. The principal factors that contributed to this decline include an increase in the provision for loan and lease losses and an increase in non-interest expenses. Provision for loan and lease losses increased $1.4 million which is associated with an increase in inherent risk directly related to a growing loan portfolio coupled with an increase in our non-performing loans and leases. Non-interest expenses increased $4.0 million primarily in our compensation expense category. Positive factors offsetting the decline in net income include increase in net interest income of $4.2 million caused by volume increases associated with our organic growth and $742,000 increase in non-interest income which is primarily driven by the increase in our trust and investment services fee income. Basic earnings per share were $1.33 and $1.53 for the years ended December 31, 2007 and 2006, respectively. Diluted earnings per share were $1.32 and $1.52 for the years ended December 31, 2007 and 2006, respectively. The decline in both basic and diluted earnings per share was directly related to the 13.1% decline in net income for the year ended December 31, 2007. Return on average assets and average return on equity are 0.39% and 6.86%, respectively for the year ended December 31, 2007 compared to 0.54% and 8.65%, respectively, for the year ended December 31, 2006.

Top Line Revenue. Top line revenue is comprised of net interest income and non-interest income. This measurement is also commonly referred to as operating revenue. We use this measure to monitor our revenue growth and as one half of the performance measurements used for our non-equity incentive plan that covers substantially all employees within our Corporation. The growth in top line revenue exceeded our target of 12.5% growth over the prior year. The components of top line revenue were as follows:

	For the Year Ended December 31,		
	2007	**2006**	**Change**
	(In Thousands)		
Net interest income	$ 23,208	$ 18,971	22.3%
Non-interest income	4,416	3,674	20.2
Total top line revenue	$ 27,624	$ 22,645	22.0

Adjusted Net Income. Adjusted net income is comprised of our net income as presented under generally accepted accounting principles (GAAP) adjusted for the after tax effects of the provision for loan and lease losses and actual net charge-offs incurred during the year. We use this measure to monitor the growth of net income after the effect of actual net charge-offs and as the other half of the performance measurements used for our non-equity incentive plan that covers substantially all employees within our Corporation. Our target growth of adjusted net income is 12.5% growth over the prior year. A reconciliation of net income to adjusted net income is as follows:

	For the Year Ended December 31,		
	2007	**2006**	**Change**
Net income, presented under US GAAP	$ 3,256	$ 3,747	(13.1)%
Add back:			
Provision for loan and lease losses, after tax	1,765	923	91.2%
Less:			
Net (charge-offs) recoveries, after tax	(818)	2	*
Adjusted net income	$ 4,203	$ 4,672	(10.0)%

* Not meaningful

Net Interest Income. Net interest income depends on the amounts of and yields on interest-earning assets as compared to the amounts of and rates on interest-bearing liabilities. Net interest income is sensitive to changes in market rates of interest and the asset/liability management procedures used by management in responding to such changes. The dollar volume of loans, leases and investments compared to the dollar volume of deposits and borrowings, combined with the interest rate spread, produces the changes in net interest income between periods. The table below provides information with respect to (1) the effect on interest income attributable to changes in rate (changes in rate multiplied by prior volume), (2) the effect on interest income attributable to changes in volume (changes in volume multiplied by prior rate) and (3) the changes in rate/volume (changes in rate multiplied by changes in volume) for the year ended December 31, 2007 compared to the year ended December 31, 2006.

Rate/Volume Analysis

	Increase (Decrease) For the Year Ended December 31, 2007 Compared to 2006			
	Rate	Volume	Rate/ Volume	Net
	(In Thousands)			
Interest-Earning Assets				
Commercial real estate and other mortgage loans	$ 655	$ 7,688	$ 188	$ 8,531
Commercial and industrial loans	(296)	3,201	(63)	2,842
Leases	(136)	399	(41)	222
Consumer loans	(9)	19	(1)	9
Total loans and leases receivable	214	11,307	83	11,604
Mortgage-related securities	261	(15)	(1)	245
Investment securities	11	(55)	(6)	(50)
Other investments	(32)	(8)	3	(37)
Fed funds sold and other	-	66	(12)	54
Short-term investments	1	11	-	12
Total net change in income on interest-earning assets	455	11,306	67	11,828
Interest-Bearing Liabilities				
NOW accounts	(17)	687	(5)	665
Money market	(123)	801	(14)	664
Certificates regular	1,133	4,036	330	5,499
Certificates large	166	358	30	554
Total deposits	1,159	5,882	341	7,382
Junior subordinated debentures	(1,241)	(1,241)	1,241	(1,241)
FHLB advances	9	324	3	336
Other borrowings	228	765	121	1,114
Total net change in expense on interest-bearing liabilities	155	5,730	1,706	7,591
Net change in net interest income	$ 300	$ 5,576	$ (1,639)	$ 4,237

Interest income was $59.4 million for the year ended December 31, 2007, an increase of $11.8 million, or 24.8%, from the year ended December 31, 2006. This increase was primarily due to the volume increases in the commercial real estate and other mortgage loan portfolio and the commercial and industrial loan portfolio. The average balance of the commercial real estate and other mortgage loan portfolio was $481.0 million with an average yield of 7.34% compared to an average balance of $373.7 million with an average yield of 7.16% for the year ended December 31, 2006. Yields on our commercial real estate and other mortgage loan portfolio increased 18 basis points. The majority of the loans in this portfolio are fixed rate in nature and are minimally impacted by a volatile interest rate market. The average balance of the commercial and industrial loan portfolio was $200.4 million with an average yield of 8.98% for the year ended December 31, 2007 compared to an average balance of $165.5 million with an average yield of 9.16% for the year ended December 31, 2006. The yields on our commercial and industrial portfolio dropped 18 basis points. This basis point decline is partially attributable to the volatility in the Prime and London Interbank Offer Rates (LIBOR) that has occurred during 2007 coupled with continued pressures to competitively price our commercial loans. Yields on commercial loans also reflect the recognition of asset-based loan fees collected including prepayment fees.

Interest expense was $36.3 million for the year ended December 31, 2007, an increase of $7.6 million, or 26.5%, from the year ended December 31, 2006. The increase in interest expense was primarily caused by the increased average deposit liability balances needed to fund asset growth and the need to competitively price deposit products to attract local deposits. Shortfalls in attracting local deposits are supplemented with brokered deposits. Average deposit balances, including brokered deposits, were approximately $676.7 million with a weighted average cost of funds of 4.80% compared to an average balance of $548.0 million with a weighted average cost of funds of 4.58% for the year ended December 31, 2006. Average borrowings were $62.4 million with a weighted average cost of funds of 6.13% for the year ended December 31, 2007 compared to an average balance of $52.9 million with a weighted average cost of funds of 6.82% for the year ended December 31, 2006. During the fourth quarter of 2006, we repaid $10.3 million of junior subordinated debentures. The decrease in the weighted average cost of funds is directly related to this repayment and its replacement with subordinated notes payable at a lower rate.

During the third quarter of 2007, we decided to change the pricing index of our variable rate deposit liabilities, including NOW and money market accounts from the 91 day Treasury Bill (T-Bill) index to the Federal Funds rate. This was done at a time when the T-Bill rates were experiencing significant volatility and action was required to continue to competitively price our products while protecting our in-market deposits to maintain appropriate liquidity for the Banks. As a result of this pricing methodology change, we did not experience a significant decline in our weighted average cost of funds associated with our NOW and money market accounts as the Federal Funds average rate for the year 2007 and the average rate of the T-Bill for the same time period of 2006 are closely correlated. As discussed above, shortfalls in attracting local deposits are supplemented with brokered deposits. With the volatility in the interest rate markets over the last quarter of 2007, brokered deposit rates did not fall as quickly as the related indices due to significant demand for brokered deposits throughout the financial services industry caused by liquidity issues among larger financial institutions that were impacted by the challenges of the sub-prime residential real estate market. Interest rates on brokered deposits are fixed; however, purchases of brokered certificates are structured to match the repricing and maturity of the interest-earning portfolio.

Net interest margin was 2.87% for the year ended December 31, 2007 compared to 2.87% for the year ended December 31, 2006. Our net interest margin remained stable due to the market-based pricing of assets and liabilities because we managed the composition and duration of our interest-bearing liabilities to limit the exposure to changing rates and because the rate of increase in our net interest income kept pace with the growth in our interest earning assets. In addition, the change of the index of which we price our variable rate deposit products allows us to significantly mitigate basis risk or repricing mismatch inherent in our portfolios without implementing complicated hedging strategies to protect our net interest margin in volatile and changing rate environments.

Net Interest Income Information

Average Interest-Earning Assets, Average Interest-Bearing Liabilities, Interest Rate Spread, and Net Interest Margin. The following table shows our average balances, interest, average rates, net interest margin, and the spread between combined average rates earned on the our interest-earning assets and cost of interest-bearing liabilities for the periods indicated. The average balances are derived from average daily balances.

	For the Year Ended December 31,					
	2007			2006		
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
			(Dollars in Thousands)			
Interest-Earning Assets						
Commercial real estate and other mortgage loans[1]	$ 481,039	$ 35,307	7.34%	$ 373,731	$ 26,776	7.16%
Commercial and industrial loans	200,414	18,000	8.98	165,473	15,158	9.16
Leases	24,346	1,552	6.37	18,730	1,330	7.10
Consumer loans	3,106	198	6.37	2,823	189	6.70
Total loans and leases receivable[1]	708,905	55,057	7.77	560,757	43,453	7.75
Mortgage-related securities[2]	92,094	4,167	4.52	92,444	3,922	4.24
Investment securities[2]	1,640	60	3.66	3,297	110	3.34
Federal Home Loan Bank stock	2,230	45	2.02	2,474	82	3.31
Fed funds sold and other	1,118	56	5.01	33	2	6.06
Short-term investments	2,212	103	4.66	1,980	91	4.60
Total interest-earning assets	808,199	59,488	7.36	660,985	47,660	7.21
Non-interest-earning assets	32,539			31,292		
Total assets	$ 840,738			$ 692,277		
Interest-Bearing Liabilities						
NOW accounts	$ 67,189	2,838	4.22	$ 51,048	2,173	4.26
Money market	171,508	7,699	4.49	153,978	7,035	4.57
Certificates-regular	387,974	19,385	5.00	300,601	13,886	4.62
Certificates-large	50,025	2,536	5.07	42,377	1,982	4.68
Total deposits	676,696	32,458	4.80	548,004	25,076	4.58
Junior subordinated debentures	-	-	-	9,915	1,241	12.52
FHLB advances	25,776	1,256	4.87	19,059	920	4.83
Other borrowings	36,605	2,566	7.01	23,971	1,452	6.06
Total interest-bearing liabilities	739,077	36,280	4.91	600,949	28,689	4.77
Non-interest-bearing liabilities	54,204			47,992		

Total liabilities	793,281			648,941		
Stockholders equity	47,457			43,336		
Total liabilities and stockholders equity	$ 840,738			$ 692,277		
Net interest income/interest rate spread		$ 23,208	2.45%		$ 18,971	2.44%
Net interest-earning assets	$ 69,122			$ 60,036		
Net interest margin			2.87%			2.87%
Average interest-earning assets to average interest-bearing liabilities	109.35%			110.00%		
Return on average assets	0.39			0.54		
Return on average equity	6.86			8.65		
Average equity to average assets	5.64			6.26		
Non-interest expense to average assets	2.34			2.27		

[1] The average balances of loans and leases include non-performing loans and leases. Interest income related to non-performing loans and leases is recognized when collected.

[2] Includes amortized cost of basis of assets held and available for sale.

Provision for Loan and Lease Losses. The provision for loan and lease losses totaled $2.9 million for the year ended December 31, 2007 compared to $1.5 million for the year ended December 31, 2006. The $1.4 million increase in the provision for loan and lease losses is primarily due to the increased inherent risk associated with a growing loan and lease portfolio coupled with both an increased amount of impaired loans and other factors prescribed by our allowance for loan and lease methodology. The provision for loan and lease losses is dependent upon the credit quality of loans and leases, the increased inherent risk associated with a larger portfolio, the risk inherent in specific loan types and our assessment of the collectibility of loans and leases under current economic conditions. While we have made no changes to our underwriting standards in 2007 and 2006, current economic conditions have caused us to add additional steps to our approval process. To establish the appropriate level of the allowance for loan and lease losses, we regularly reviews our historical charge-off migration analysis and an analysis of the current level and trend of several factors that we believe may indicate losses in the loan and lease portfolio. These factors include delinquencies, volume, average size, average risk rating, technical defaults, geographic concentrations, industry concentrations, loans and leases on the management attention watch list, experience in the credit granting functions and changes in underwriting standards, and level of non-performing assets and related fair value of underlying collateral. Refer to **Allowance for Loan and Lease Losses** for further information.

Non-Interest Income. Non-interest income, consisting primarily of fees earned for trust and investment services, service charges and fees on deposits and loans and income from bank-owned life insurance, increased $742,000, or 20.2%, to $4.4 million for the year ended December 31, 2007 from $3.7 million for the year ended December 31, 2006. Trust and investment services fee income increased $558,000, or 41.2% to $1.9 million for the year ended December 31, 2007 compared to $1.4 million for the year ended December 31, 2006. Trust and investment services fee income can be broken into two components: trust fee income and investment service commission income. Trust fee income was $1.5 million for the year ended December 31, 2007 compared to $1.1 million for the year ended December 31, 2006. Trust fee income is driven by the volume of assets under management and the market values associated with those assets. At December 31, 2007, we had $291.2 million of trust assets under management. This is an $86.9 million increase over the assets under management of $204.3 million at December 31, 2006. The increase in trust assets under management is a direct result of successful sales efforts. The second component of trust and investment services fee income relates to investment service commissions. Investment commissions are received on each transaction processed for our brokerage clients along with continued commissions received as long as our clients hold the investment in the product that was purchased. At December 31, 2007, the brokerage assets under administration increased $33.4 million, or 29.2%, to $147.8 million compared to $114.4 million at December 31, 2006. As a result of increased client activity and due to timing of commissions paid, investment service commissions increased approximately $158,000, or 53.4%, for the year ended December 31, 2007 compared to the year ended December 31, 2006.

Income associated with cash surrender value of life insurance policies increased $83,000, or 13.5%, to $697,000 for the year ended December 31, 2007 compared to $614,000 for the year ended December 31, 2006. The increase in cash surrender value is due to positive market performance of the policies. In addition, non-interest income increased due to the change in fair value of interest rate swaps and net cash settlement which decreased 2006 period revenue by approximately $163,000. A majority of our interest rate swaps were terminated during the first quarter of 2006. We did not enter into any new interest rate swaps in 2007.

Non-Interest Expense. Non-interest expense increased $4.0 million, or 25.2%, to $19.7 million for the year ended December 31, 2007 from $15.7 million for the year ended December 31, 2006. In general, non-interest expenses are influenced by the growth of operations, with additional employees necessary to staff such growth. Compensation expense was the primary driver of the increase in non-interest expenses during 2007. Compensation expense increased $2.8 million, or 30.6%, to $12.1 million for the year ended December 31, 2007 compared to $9.3 million for the year ended December 31, 2006. The increase in compensation expense is primarily due to an increased number of full-time equivalent employees which increases overall salary expense and bonus accruals, additional compensation expense associated with share-based compensation awards and increased healthcare costs. At December 31, 2007, we had 121.5 full-time equivalent employees compared to 112.0 full-time equivalent employees at December 31, 2006 with a primary emphasis in hiring additional business development officers in all areas of our Corporation as a means to execute our primary growth strategy. We believe this investment in our people provides a strong foundation to meet our growth initiatives in the future. Share-based compensation expense increased approximately $215,000 when comparing the years ended December 31, 2007 and 2006. We began issuing restricted share awards in 2006, and the increase in this expense represents the recognition in 2007 of twelve months of expense relating to 2006 awards that were granted periodically during fiscal year 2006. We expect that we will continue to award restricted shares. This expense will continue to increase through 2010, at which time the expense will reflect four years of awards of restricted shares, as our restricted shares generally vest over a four year period, then will only fluctuate due to other normal factors including number of shares granted and market price at which those shares are granted.

Marketing expense increased $140,000, or 15.0%, to $1.1 million for the year ended December 31, 2007 from $936,000 for the year ended December 31, 2006. The increase is due to the timing of planned advertising campaigns, including those campaigns associated with market expansion. Professional fees increased $112,000, or 8.6%, to $1.4 million for the year ended December 31, 2007 compared to $1.3 million for the year ended December 31, 2006. The increase is attributable to increased audit fees, directors   fees and use of third party consultants. Other non-interest expense increased $780,000, or 46.5%, to $2.5 million for the year ended December 31, 2007 compared to $1.7 million for the year ended December 31, 2006. The increase was caused by several factors including increased FDIC insurance expense due to increased premiums rates and larger average deposit balances of the Banks of which the increased premium rates are applied (approximately $238,000), the recognition of our portion of the loss associated with Aldine Capital Fund Limited Partnership (approximately $191,000), increased legal fees and other expenses associated with defending our positions with certain loans and owned real estate (approximately $72,000), increased charitable donations (approximately $56,000), and increased training expenses (approximately $28,000). Our investment in Aldine Capital Fund Limited Partnership is accounted for under the equity method and the losses represent our pro-rata share of the operating costs given the relatively new status of this private equity partnership. Aldine Capital Fund Limited Partnership began operations in October 2006.

Income Taxes. Income tax expense was $1.8 million for the year ended December 31, 2007, with an effective tax rate of 35.7%, compared to $1.7 million, with an effective tax rate of 31.0%, for the year ended December 31, 2006. The primary reasons for the increase in the effective tax rate are due to increased state income tax expense including interest related to uncertain tax positions, and a decline in low income housing income tax credits.

Financial Condition

December 31, 2007

General. Total assets increased $130.1 million, or 16.5%, to $918.4 million at December 31, 2007 from $788.3 million at December 31, 2006. This asset growth is primarily in our loan and lease portfolio. Loans and leases receivable, net of allowance for loan and lease losses, increased $131.8 million, or 20.6%. The asset growth was primarily funded by net increases in deposits of $135.8 million. The allowance for loan and lease losses was 1.26% and 1.28% of gross loans as of December 31, 2007 and 2006, respectively.

Securities. Securities available-for-sale decreased $2.6 million to $97.4 million at December 31, 2007 from $100.0 million at December 31, 2006, primarily due to principal pay-downs received, net of new purchases. We used net principal pay-downs that we received to fund loan and lease growth.

Our available for sale portfolio primarily consists of collateralized mortgage obligations and is used to provide a source of liquidity and provide collateral for borrowings, while maximizing the earnings potential of the Banks   assets. We purchase investment securities intended to protect our net interest margin while maintaining an acceptable risk profile. Mortgage-related securities, including collateralized mortgage obligations, are subject to risks based upon the future performance of underlying collateral, mortgage loans, for these securities. Among the risks are prepayment risk, extension risk, and interest rate risk. Should general interest rates decline, the mortgage-related securities portfolio would be subject to prepayments caused by borrowers seeking lower financing rates. A decline in interest rates could also cause a decline in interest income on adjustable-rate mortgage-related securities. Conversely, an increase in general interest rates could cause the mortgage-related securities portfolio to be subject to a longer term to maturity caused by borrowers being less likely to prepay their loans. Such a rate increase could also cause the fair value of the mortgage related securities portfolio to decline. While collateralized mortgage obligations present prepayment risk and extension risk, the overall credit risk associated with these investments as it relates to our investment portfolio is minimal as we purchase investments which are insured or guaranteed by the Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), or Government National Mortgage Association (GNMA). In addition, we believe the collateralized mortgage obligations represent attractive investments due to the wide variety of maturity and repayment options available to allow us to better match our short-term liabilities. Of the total available-for-sale mortgage securities at December 31, 2007, $31.6 million, $13.0 million, and $52.7 million were insured or guaranteed by FHLMC, FNMA, and GNMA, respectively. None of the securities within our portfolio are collateralized by sub-prime mortgages.

Investment objectives are formed to meet liquidity requirements and generate a favorable return on investments without compromising other business objectives and levels of interest rate risk and credit risk. Consideration is also given to investment portfolio concentrations. Federal and state chartered banks are allowed to invest in various types of assets, including U.S. Treasury obligations, securities of various federal agencies, state and municipal obligations, mortgage-related securities, certain time deposits of insured financial institutions, repurchase agreements, loans of federal funds, and, subject to certain limits, corporate debt and equity securities, commercial paper and mutual funds. Our investment policy provides that we will not engage in any practice that the Federal Financial Institutions Examination Council considers an unsuitable investment practice. These objectives are formalized and documented in our investment policy which is approved by the Banks Boards of Directors (Boards) on an annual basis. Management, as authorized by the Boards, implements this policy. The Boards review investment activity on a monthly basis.

The Banks investment policies allow the Banks to participate in hedging strategies or use financial futures, options or forward commitments or interest rate swaps with prior Board approval. The Banks utilize from time to time derivative instruments in the course of their asset/liability management. These derivative instruments are primarily interest rate swap agreements which are used to protect against the risk of adverse price or interest rate movements on the value of certain assets and liabilities and on future cash flows. However, no new derivative contracts were entered into during 2007.

Securities are classified as available-for-sale, held-to-maturity and trading. Available-for-sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported as a separate component of stockholder s equity. We held no securities designated as held-to-maturity or trading as of December 31, 2007.

At December 31, 2007, $62.5 million of our mortgage-related securities were pledged to secure our various obligations.

The table below sets forth information regarding the amortized cost and fair values of our investments and mortgage-related securities at the dates indicated.

	As of December 31,			
	2007		2006	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)			
Securities available-for-sale				
U.S. Government corporations and agencies	$ 1,500	$ 1,497	$ 1,497	$ 1,467
Municipals	85	85	185	182

Collateralized mortgage obligations government agencies	52,755	52,658	38,903	38,775
Collateralized mortgage obligations government sponsored agencies	43,631	43,138	60,952	59,584
	$ 97,971	$ 97,378	$ 101,537	$ 100,008

The following table sets forth the maturity and weighted average yield characteristics of the fair value of the our debt securities at December 31, 2007, classified by term maturity.

	Less than One Year		One to Five Years		Five to Ten Years		Over Ten Years		
	Balance	Weighted Average Yield	Balance	Weighted Average Yield	Balance	Weighted Average Yield	Balance	Weighted Average Yield	Total
					(In Thousands)				
Available-for-sale									
U.S. Government corporations and agencies	$ 1,497	3.41%	$ -	-	$ -	-	$ -	-	$ 1,497
Municipals	85	5.63%	-	-	-	-	-	-	85
Collateralized mortgage obligations government agencies	-	-	-	-	1,388	5.14%	51,271	5.15	52,658
Collateralized mortgage obligations government sponsored agencies	30	6.01%	423	3.84%	17,830	3.84%	24,856	4.16%	43,138
	$ 1,611	3.57%	$ 423	3.84%	$ 19,217	3.94%	$ 76,127	4.82%	$ 97,378

We currently do not hold any tax-exempt securities; therefore, all yields presented are based on a tax equivalent basis.

Derivative Activities. We use derivative instruments, principally interest rate swaps, to protect against the risk of adverse price or interest rate movements on the value of certain assets and liabilities and on future cash flows. For further discussion on our interest rate risk management activities and use of derivatives, see **Note 1** to the Consolidated Financial Statements. We did not enter into any new derivative contracts during 2007.

Loans and Leases Receivable. Total net loans and leases increased $131.8 million to $771.6 million at December 31, 2007 from $639.9 million at December 31, 2006. The Banks principally originate commercial and industrial loans and commercial real estate loans. Commercial real estate loans represent approximately 43.01% of the loan portfolio while commercial and industrial loans, including asset-based loans represent 27.35% of the loan portfolio. The mix of the overall loan portfolio has remained relatively consistent from the prior year continuing with a concentration in commercial real estate. Commercial real estate loans are secured by properties located primarily in Dane, Waukesha and Outagamie counties and their surrounding communities in Wisconsin. Growth in the loan and lease portfolio is attributable to successful sales efforts by the expanded business development team to extend credit to established and new client relationships, including production from our loan production offices located in the Northeast region of Wisconsin. Our pipeline of potential new business remains strong and we expect the loan and lease portfolio to continue to grow.

Loan Portfolio Composition. The following table presents information concerning the composition of the Banks consolidated loans and leases held for investment at the dates indicated.

	As of December 31,					
	2007		2006		2005	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
			(In Thousands)			
Mortgage loans:						
Commercial real estate	$ 336,153	43.01%	$ 274,262	42.30%	$ 249,133	46.16%
Construction and land development	90,545	11.58	78,257	12.07	50,619	9.38
Multi-family	41,821	5.35	34,635	5.34	22,115	4.10
1-4 family	48,437	6.20	35,721	5.51	26,513	4.91
Total mortgage loans	516,956	66.14	422,875	65.22	348,380	64.55
Commercial loans and leases:						
Commercial and industrial	147,856	18.92	125,256	19.32	102,482	18.98
Asset-based	65,930	8.43	51,445	7.93	49,206	9.12
Direct financing leases, net	29,383	3.76	23,203	3.58	17,852	3.31
Total commercial loans and leases	243,169	31.11	199,904	30.83	169,540	31.41
Consumer loans:						
Home equity and second mortgage	9,784	1.25	8,859	1.37	8,231	1.53
Credit card	854	0.11	785	0.12	560	0.10
Personal	1,147	0.15	1,248	0.19	860	0.16
Other	9,724	1.24	14,679	2.27	12,159	2.25
Total consumer loans	21,509	2.75	25,571	3.95	21,810	4.04
Gross loans and leases receivable	781,634	100.00%	648,350	100.00%	539,730	100.00%
Contras to loans and leases:						
Allowance for loan and lease losses	(9,854)		(8,296)		(6,773)	
Deferred loan fees	(147)		(187)		(241)	
Loans and leases receivable, net	$ 771,633		$ 639,867		$ 532,716	

The following table shows the scheduled contractual maturities of the Banks consolidated gross loans and leases held for investment, as well as the dollar amount of such loans and leases which are scheduled to mature after one year which have fixed or adjustable interest rates, as of December 31, 2007.

	Commercial	**Commercial and**	**Construction, Multi-Family,**	**Lease**	**Consumer**	
	Real Estate	**Industrial**	**1-4 Family**	**Receivables**	**and other**	**Total**
			(In Thousands)			
Amounts due:						
In one year or less	$ 47,274	$ 88,419	$ 85,850	$ 296	$ 13,875	$ 235,714
After one year through five years	229,642	120,355	84,834	21,924	7,557	464,312
After five years	59,237	5,012	10,119	7,163	77	81,608
	$ 336,153	$ 213,786	$ 180,803	$ 29,383	$ 21,509	$ 781,634
Interest rate terms on amounts due after one year:						
Fixed	$ 252,589	$ 63,039	$ 74,904	$ 29,087	$ 7,604	$ 427,223
Adjustable	$ 36,290	$ 62,328	$ 20,049	$ -	$ 30	$ 118,697

Commercial Real Estate. The Banks originate commercial real estate loans which have fixed or adjustable rates and terms of generally up to five years and amortizations of twenty-five years on existing commercial real estate and new construction. Loans secured by commercial real estate consist of commercial owner-occupied properties as well as investment properties. At December 31, 2007, the Banks had $336.2 million of loans secured by commercial real estate. This represented 43.01% of the Banks gross loans and leases. Approximately $155.2 million of the commercial real estate loans are owner-occupied properties which represents 30.02% of all loans secured by real estate.

Commercial Loans. At December 31, 2007, commercial and industrial loans amounted to $213.8 million,or 27.35%, of gross loans and leases. The Banks commercial and industrial loan portfolio is comprised of loans for a variety of purposes and generally is secured by inventory, accounts receivable, equipment, machinery and other corporate assets and are advanced within limits prescribed by our loan policy. Substantially all of such loans are secured and typically backed by personal guarantees of the owners of the borrowing business.

Of the $213.6 million of commercial and industrial loans, $65.9 million were originated by FBCC, our asset-based lending subsidiary, as of December 31, 2007. These asset-based loans are typically secured by accounts receivable, inventories, or equipment. Because asset-based borrowers are usually highly leveraged, such loans have higher interest rates and fees accompanied by close monitoring of assets. Asset-based loans secured by real estate amounted to $10.7 million as of December 31, 2007 and are included in the commercial real estate portfolio.

Construction, Multi-family Loans and 1-4 Family. The Banks originate loans to construct commercial properties and complete land development projects. At December 31, 2007, construction and land development loans amounted to $90.5 million, or 11.58%, of the Banks gross loans and leases. The Banks construction loans generally have terms of six to twenty-four months with fixed or adjustable interest rates and fees that are due at the time of origination. Loan proceeds are disbursed in increments as construction progresses and as inspections by title companies warrant.

The Banks originated multi-family loans that amounted to $41.8 million at December 31, 2007, or 5.35%, of gross loans and leases. These loans are primarily secured by apartment buildings and are primarily located in Dane and Waukesha counties; however, loan participation opportunities may expand the exposure to areas outside of the Banks primary market area.

The Banks also originate 1 4 family first mortgage loans which totaled $48.4 million at December 31, 2007, or 6.20%, of gross loans and leases. These loans are primarily secured by single family homes that are held for investment by our clients.

Leases. Leases originated through First Business Equipment Finance, LLC (FBEF), formerly known as First Business Leasing, LLC, amounted to $29.4 million as of December 31, 2007 and represented 3.76% of gross loans and leases. Leases are originated with a fixed rate and typically a term of seven years or less. It is customary in the leasing industry to provide 100% financing, however, FBEF will, from time-to-time, require a down payment or lease deposit to provide a credit enhancement. All equipment leases must have an additional insured endorsement and a loss payable clause in the interest of FBEF and must carry sufficient physical damage and liability insurance.

FBEF leases machinery and equipment to clients under leases which qualify as direct financing leases for financial reporting and as operating leases for income tax purposes. Under the direct financing method of accounting, the minimum lease payments to be received under the lease contract, together with the estimated unguaranteed residual value (approximating 3 to 20% of the property cost of the related equipment), are recorded as lease receivables when the lease is signed and the lease property is delivered to the client. The excess of the minimum lease payments and residual values over the cost of the equipment is recorded as unearned lease income. Unearned lease income is recognized over the term of the lease on a basis which results in an approximate level rate of return on the unrecovered lease investment. Lease payments are recorded when due under the lease contract. Residual value is the estimated fair market value of the equipment on lease at lease termination. In estimating the equipment s fair value, FBEF relies on historical experience by equipment type and manufacturer, published sources of used equipment pricing, internal evaluations and, where available, valuations by independent appraisers, adjusted for known trends. FBEF reviews its estimates regularly to ensure reasonableness; however, the amounts the FBEF will ultimately realize could differ from the estimated amounts. The majority of the equipment was leased to businesses in the manufacturing (26.3%), printing (19.4%), and commercial vehicle leasing (31.5%) industries as of December 31, 2007.

Consumer and other mortgage loans. The Banks originate a small amount of consumer loans. Such loans amounted to $21.5 million, or 2.75% of the Banks gross loans, at December 31, 2007 and consist of home equity, second mortgage, credit card and other personal loans for professional and executive clients of the Banks. Generally, the maximum loan to value on home equity loans is 80% with proof of property value required at origination and annual personal financial statements required after the initial loan application. The typical loan to value on new automobiles and trucks is 80%.

Net Fee Income from Lending Activities. The Banks defer loan and lease origination and commitment fees and certain direct loan and lease origination costs and amortize as an adjustment to the related loan and lease yields. The Banks also receive other fees and charges relating to existing loans, which include prepayment penalties, loan monitoring fees, late charges and fees collected in connection with loan modifications.

Loan and Lease Delinquencies. The Banks place loans and leases on non-accrual status when, in the judgment of management, the probability of collection of interest is deemed to be insufficient to warrant further accrual. Previously accrued but unpaid interest is deducted from interest income at that time. As a matter of policy, the Banks do not accrue interest on loans or leases past due beyond 90 days. Loans on non-accrual status are considered impaired.

The following table sets forth information relating to delinquent loans and leases at the dates indicated.

	As of December 31,					
	2007		2006		2005	
Days Past Due	**Balance**	**% of Gross Loans and Leases**	**Balance**	**% of Gross Loans and Leases**	**Balance**	**% of Gross Loans and Leases**
			(In Thousands)			
30 to 59 days	$ 621	0.08%	$ 5,860	0.90%	$ 389	0.07%
60 to 89 days	85	0.01	-	0.00	99	0.02
90 days and over[3]	2,487	0.32	455	0.07	721	