

FIRST OF LONG ISLAND CORP  
Form 10-Q  
May 10, 2006

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

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FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2006

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 0-12220

**THE FIRST OF LONG ISLAND CORPORATION**

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(Exact Name of Registrant as Specified in Its Charter)

**NEW YORK**

**11-2672906**

(State or Other Jurisdiction of Incorporation or Organization)

(I.R.S. Employer Identification No.)

**10 Glen Head Road, Glen Head, New York**

**11545**

(Address of Principal Executive Offices)

(Zip Code)

Registrant's Telephone Number, Including Area Code (516) 671-4900

Not Applicable

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(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report.)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

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

Class	Outstanding at April 28, 2006
Common stock, \$.10 par value	3,834,396

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**MARCH 31, 2006**  
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## ITEM 1. - FINANCIAL STATEMENTS

## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	March 31, 2006	December 31, 2005
<b>Assets:</b>		
Cash and due from banks	\$ 29,402,000	\$ 24,603,000
Federal funds sold	32,700,000	
	<u>62,102,000</u>	<u>24,603,000</u>
Cash and cash equivalents		
	<u>62,102,000</u>	<u>24,603,000</u>
Investment securities:		
Held-to-maturity, at amortized cost (fair value of \$246,336,000 and \$257,281,000)	250,411,000	259,260,000
Available-for-sale, at fair value (amortized cost of \$230,368,000 and \$259,478,000)	228,334,000	259,137,000
	<u>478,745,000</u>	<u>518,397,000</u>
Loans:		
Commercial and industrial	50,257,000	47,310,000
Secured by real estate	347,782,000	328,091,000
Consumer	5,396,000	4,329,000
Other	558,000	816,000
	<u>403,993,000</u>	<u>380,546,000</u>
Net deferred loan origination costs (fees)	71,000	(54,000)
	<u>404,064,000</u>	<u>380,492,000</u>
Allowance for loan losses	(3,515,000)	(3,282,000)
	<u>400,549,000</u>	<u>377,210,000</u>
Bank premises and equipment, net	7,949,000	7,583,000
Deferred income tax benefits	1,041,000	279,000
Other assets	18,432,000	16,084,000
	<u>\$ 968,818,000</u>	<u>\$ 944,156,000</u>
<b>Liabilities:</b>		
Deposits:		
Checking	\$ 322,290,000	\$ 307,842,000
Savings and money market	369,758,000	394,176,000
Time, other	32,524,000	23,876,000
Time, \$100,000 and over	104,078,000	62,117,000
	<u>828,650,000</u>	<u>788,011,000</u>
Securities sold under repurchase agreements	45,275,000	60,195,000
Accrued expenses and other liabilities	2,050,000	5,219,000
Current income taxes payable	720,000	33,000
	<u>876,695,000</u>	<u>853,458,000</u>

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**Stockholders Equity:**

Common stock, par value \$.10 per share:		
Authorized, 20,000,000 shares;		
Issued and outstanding, 3,838,278 and 3,846,716 shares	<b>384,000</b>	385,000
Surplus	<b>452,000</b>	817,000
Retained earnings	<b>92,508,000</b>	89,701,000
	<b>93,344,000</b>	90,903,000
Accumulated other comprehensive loss net of tax	<b>(1,221,000)</b>	(205,000)
	<b>92,123,000</b>	90,698,000
	<b>\$ 968,818,000</b>	\$ 944,156,000

*See notes to unaudited consolidated financial statements*

## CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended March 31,	
	2006	2005
<b>Interest income:</b>		
Loans	\$ 6,169,000	\$ 4,979,000
Investment securities:		
Taxable	3,581,000	3,026,000
Nontaxable	1,515,000	1,625,000
Federal funds sold	182,000	71,000
	<u>11,447,000</u>	<u>9,701,000</u>
<b>Interest expense:</b>		
Savings and money market deposits	991,000	712,000
Time deposits	988,000	202,000
Securities sold under repurchase agreements	672,000	321,000
	<u>2,651,000</u>	<u>1,235,000</u>
Net interest income	8,796,000	8,466,000
Provision for loan losses	236,000	150,000
Net interest income after provision for loan losses	<u>8,560,000</u>	<u>8,316,000</u>
<b>Noninterest income:</b>		
Investment Management Division income	451,000	472,000
Service charges on deposit accounts	810,000	857,000
Net losses on sales of available-for-sale securities		(162,000)
Other	324,000	522,000
	<u>1,585,000</u>	<u>1,689,000</u>
<b>Noninterest expense:</b>		
Salaries	2,935,000	2,733,000
Employee benefits	1,204,000	1,262,000
Occupancy and equipment expense	1,013,000	979,000
Other operating expenses	1,360,000	1,251,000
	<u>6,512,000</u>	<u>6,225,000</u>
Income before income taxes	3,633,000	3,780,000
Income tax expense	826,000	738,000
<b>Net income</b>	<u>\$ 2,807,000</u>	<u>\$ 3,042,000</u>
<b>Weighted average:</b>		
Common shares	3,842,828	3,946,127

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Dilutive stock options	<u>46,231</u>	<u>70,758</u>
	<u>3,889,059</u>	<u>4,016,885</u>
<b>Earnings per share:</b>		
Basic	<u>\$ .73</u>	<u>\$ .77</u>
Diluted	<u>\$ .72</u>	<u>\$ .76</u>

*See notes to unaudited consolidated financial statements*

**CONSOLIDATED STATEMENTS OF CHANGES  
IN STOCKHOLDERS' EQUITY (UNAUDITED)**

**Three Months Ended March 31, 2006**

	Common Stock			Compre- hensive Income	Retained Earnings	Accumulated Other Compre- hensive Income (Loss)	Total
	Shares	Amount	Surplus				
Balance, January 1, 2006	3,846,716	\$ 385,000	\$ 817,000		\$ 89,701,000	\$ (205,000)	\$ 90,698,000
Net Income				\$ 2,807,000	2,807,000		2,807,000
Repurchase and retirement of common stock	(9,088)	(1,000)	(390,000)				(391,000)
Exercise of stock options	650		14,000				14,000
Stock-based compensation			11,000				11,000
Unrealized losses on available-for-sale-securities, net of reclassification adjustment and income taxes				(1,016,000)		(1,016,000)	(1,016,000)
Comprehensive income				\$ 1,791,000			
Balance, March 31, 2006	3,838,278	\$ 384,000	\$ 452,000		\$ 92,508,000	\$ (1,221,000)	\$ 92,123,000

**Three Months Ended March 31, 2005**

	Common Stock			Compre- hensive Income	Retained Earnings	Accumulated Other Compre- hensive Income (Loss)	Total
	Shares	Amount	Surplus				
Balance, January 1, 2005	3,967,548	\$ 397,000	\$ 1,135,000		\$ 86,786,000	\$ 1,922,000	\$ 90,240,000
Net Income				\$ 3,042,000	3,042,000		3,042,000
Repurchase and retirement of common stock	(65,501)	(7,000)	(3,147,000)				(3,154,000)
Exercise of stock options	31,268	3,000	819,000				822,000
Tax benefit of stock options			124,000				124,000
Cash dividend adjustment					18,000		18,000
Unrealized losses on available-for-sale-securities, net of reclassification adjustment and income taxes				(2,111,000)		(2,111,000)	(2,111,000)
Transfer from retained earnings to surplus			2,000,000		(2,000,000)		
Comprehensive income				\$ 931,000			
Balance, March 31, 2005	3,933,315	\$ 393,000	\$ 931,000		\$ 87,846,000	\$ (189,000)	\$ 88,981,000

*See notes to unaudited consolidated financial statements*





## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended March 31,	
	2006	2005
<b>Cash Flows From Operating Activities:</b>		
Net income	\$ 2,807,000	\$ 3,042,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	236,000	150,000
Deferred income tax credit	(85,000)	(86,000)
Depreciation and amortization	350,000	338,000
Premium amortization on investment securities, net	128,000	368,000
Net losses on sales of available-for-sale securities		162,000
Stock-based compensation expense	11,000	
Accretion of cash surrender value on bank owned life insurance	(101,000)	(66,000)
Decrease in prepaid income taxes		141,000
Decrease (increase) in other assets	253,000	(1,118,000)
Decrease in accrued expenses and other liabilities	(1,438,000)	(1,228,000)
Increase in income taxes payable	687,000	508,000
Net cash provided by operating activities	<u>2,848,000</u>	<u>2,211,000</u>
<b>Cash Flows From Investing Activities:</b>		
Proceeds from sales of available-for-sale securities		31,453,000
Proceeds from maturities and redemptions of investment securities:		
Held-to-maturity	11,110,000	14,997,000
Available-for-sale	44,204,000	4,145,000
Purchase of investment securities:		
Held-to-maturity	(2,340,000)	(27,525,000)
Available-for-sale	(15,143,000)	(41,618,000)
Net increase in loans to customers	(23,575,000)	(6,476,000)
Purchases of bank premises and equipment	(716,000)	(419,000)
Purchase of bank-owned life insurance	(2,500,000)	
Net cash provided by (used in) investing activities	<u>11,040,000</u>	<u>(25,443,000)</u>
<b>Cash Flows From Financing Activities:</b>		
Net increase in total deposits	40,639,000	32,228,000
Net increase (decrease) in securities sold under repurchase agreements	(14,920,000)	12,893,000
Proceeds from exercise of stock options	14,000	822,000
Repurchase and retirement of common stock	(391,000)	(3,154,000)
Cash dividends paid	(1,731,000)	(1,668,000)
Net cash provided by financing activities	<u>23,611,000</u>	<u>41,121,000</u>
Net increase in cash and cash equivalents	37,499,000	17,889,000
Cash and cash equivalents, beginning of year	24,603,000	24,286,000
Cash and cash equivalents, end of period	<u>\$ 62,102,000</u>	<u>\$ 42,175,000</u>

The Corporation made interest payments of \$2,614,000 and \$1,227,000 and income tax payments of \$225,000 and \$177,000 during the first quarters of 2006 and 2005, respectively.

*See notes to unaudited consolidated financial statements*

**THE FIRST OF LONG ISLAND CORPORATION AND SUBSIDIARY**  
**MARCH 31, 2006**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Basis of Presentation**

The accounting and reporting policies of the Corporation reflect banking industry practice and conform to generally accepted accounting principles in the United States. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported asset and liability balances and revenue and expense amounts and the disclosure of contingent assets and liabilities. Actual results could differ significantly from those estimates.

The consolidated financial statements include the accounts of The First of Long Island Corporation and its wholly-owned subsidiary, The First National Bank of Long Island, and the Bank's wholly-owned subsidiaries, The First of Long Island Agency, Inc. and FNY Service Corp., an investment company, and FNY Service Corp.'s wholly-owned subsidiary, The First of Long Island REIT, Inc. The consolidated entity is referred to as the Corporation and the Bank and its direct and indirect subsidiaries are collectively referred to as the Bank. The Corporation's financial condition and operating results principally reflect those of the Bank. All intercompany balances and amounts have been eliminated. For further information refer to the consolidated financial statements and notes thereto included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005.

The consolidated financial information included herein as of and for the periods ended March 31, 2006 and 2005 is unaudited; however, such information reflects all adjustments which are, in the opinion of management, necessary for a fair statement of results for the interim periods. The December 31, 2005 consolidated balance sheet was derived from the Corporation's December 31, 2005 audited consolidated financial statements.

**2. Share-based Payments**

The only equity awards outstanding during the first quarter of 2006 were stock options previously granted under the Corporation's 1996 Stock Option and Appreciation Rights Plan (the 1996 Plan). The 1996 Plan expired on January 15, 2006 and is succeeded by the Corporation's 2006 Stock Compensation Plan (the 2006 Plan). The 2006 Plan was approved by the Corporation's board of directors on February 23, 2006 and subsequently approved by its shareholders on April 18, 2006. No awards have yet been granted under the 2006 Plan. The Corporation believes that awards of equity instruments better align the interests of its employees and non-employee directors with those of its shareholders.

The Corporation's 2006 Plan permits the granting of stock options, stock appreciation rights, restricted stock, and restricted stock units to employees and non-employee directors for up to 300,000 shares of common stock. The number of awards that can be granted under the 2006 Plan to any one person in any one fiscal year is limited to 35,000 shares. Under the terms of the 2006 Plan, stock options and stock appreciation rights can not have an exercise price that is less than 100% of the fair market value of one share of the underlying common stock on the date of grant. The term and/or vesting of awards made under the 2006 Plan will be determined from time to time in accordance with rules adopted by the Corporation's Compensation Committee and be in compliance with the

applicable provisions, if any, of the Internal Revenue Code. Notwithstanding anything to the contrary in any award agreement, awards under the 2006 Plan will become immediately exercisable or will immediately vest, as the case may be, in the event of a change in control.

The Corporation's 1996 Plan permitted the granting of stock options, with or without stock appreciation rights attached, and stand alone stock appreciation rights to employees and non-employee directors for up to 540,000 shares of common stock. The number of stock options and stock appreciation rights that could have been granted under the 1996 Plan to any one person in any one fiscal year was limited to 25,000. Each option granted under the 1996 Plan was granted at a price equal to the fair market value of one share of the Corporation's stock on the date of grant. Options granted under the 1996 Plan on or before December 31, 2000 became exercisable in whole or in part commencing six months from the date of grant and ending ten years after the date of grant. Options granted under the 1996 Plan in January 2005 became exercisable in whole or in part commencing ninety days from the date of grant and ending ten years after the date of grant. By the terms of their grant, all other options under the 1996 Plan were granted with a three year vesting period and a ten year expiration date. However, vesting was subject to acceleration in the event of a change in control, retirement, death, disability, and certain other limited circumstances.

**Share-based Payment Cost.** On January 1, 2006, the Corporation adopted Statement of Financial Accounting Standards No. 123 (revised 2004) Share-Based Payment (SFAS No. 123(R)). With limited exceptions, SFAS No. 123(R) requires public companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award and to recognize such cost over the period during which an employee is required to provide service in exchange for the award (usually the vesting period).

Prior to the adoption of SFAS No. 123(R), and in accordance with the provisions of Statement of Financial Accounting Standards No. 123 Accounting for Stock-Based Compensation (SFAS No. 123), the Corporation accounted for share-based payments under the recognition and measurement principles of Accounting Principle Board Opinion No. 25 Accounting for Stock Issued to Employees (APB Opinion No. 25) and related interpretations. Except for modifications of outstanding stock options, under the intrinsic value method of accounting set forth in APB Opinion No. 25 the Corporation didn't record any stock-based employee compensation cost because of the Corporation's practice of granting stock options with an exercise price not less than the fair market value of the underlying common stock on the date of grant.

In accordance with the provisions of SFAS No. 123(R), the Corporation recorded \$11,000 of compensation expense for share-based payments in the first quarter of 2006. This expense relates to stock options that were outstanding but not yet vested as of January 1, 2006. The recorded compensation expense reduced both income before income taxes and net income by the same amount and, due to the relatively small amount of the compensation, did not significantly impact basic or diluted earnings per share. The adoption of SFAS No. 123(R) did not impact cash flows from operations or financing activities.

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The following table sets forth pro forma net income and earnings per share for the first quarter of 2005 as if the fair value based method set forth in SFAS No. 123 had been applied to all share-based payment arrangements.

	<b>Three Months Ended 3/31/05</b>
	<u>(in thousands)</u>
Net income, as reported	\$ 3,042
Deduct: Total cost of stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(759)
Pro forma net income	<u>\$ 2,283</u>
Earnings per share:	
Basic - as reported	\$ 0.77
Basic - pro forma	\$ 0.58
Diluted - as reported	\$ 0.76
Diluted - pro forma	\$ 0.57

**Fair Value of Stock Option Awards.** No stock options or other equity instruments were awarded in the first quarter of 2006. The fair value of options awarded in 2005 was estimated on the date of grant using the Black-Scholes option pricing model and the assumptions noted in the following table. Expected volatility was based on historical volatility for the expected term of the options. The Corporation used historical data to estimate the expected term of options granted. The risk-free interest rate for the expected term of the options was based on the U.S. Treasury yield curve in effect at the time of grant.

Valuation Assumptions For 2005 Stock Option Grant:

Expected volatility	24.17%
Expected dividends	2.00%
Expected term (in years)	7
Risk-free interest rate	4.15%

The weighted average grant date fair value of the options granted in 2005 was \$13.03. The total intrinsic value of options exercised during the first quarters of 2006 and 2005 was \$14,000 and \$689,000, respectively.

**Option Activity.** A summary of options outstanding under the Corporation's stock compensation plans as of March 31, 2006, and changes during the three month period then ended is presented below.

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (yrs.)	Aggregate Intrinsic Value (\$000)
Outstanding at January 1, 2006	228,650	\$ 34.78		
Granted				
Exercised	(650)	21.42		
Forfeited or expired				
Outstanding at March 31, 2006	228,000	\$ 34.82	6.53	\$ 2,093
Exercisable at March 31, 2006	220,500	\$ 34.38	6.49	\$ 2,093

As of March 31, 2006, there was \$31,000 of total unrecognized compensation cost related to nonvested stock options granted under the 1996 Plan. The cost is expected to be recognized over a period of 10 months.

**Cash Received and Tax Benefits Realized.** Cash received from option exercises for the quarters ended March 31, 2006 and 2005 was \$14,000 and \$822,000, respectively. The actual tax benefit realized for the tax deductions from option exercises for the first quarter of 2005 was \$124,000. No tax benefit was realized in the first quarter of 2006.

**Other.** No cash was used to settle stock options or stock appreciation rights during the first quarter of 2006 or 2005. The Corporation uses newly issued shares for stock option exercises.

### 3. Earnings Per Share

Options to purchase 55,282 and 32,354 shares of common stock at \$45.53 and \$47.89 per share, respectively, were outstanding at March 31, 2006 and for the quarterly period then ended but were not included in the computation of diluted earnings per share for the first quarter of 2006 because the exercise price of these options was greater than the average market price of the common shares. These antidilutive options were issued January 18, 2005 and January 20, 2004, respectively, and expire ten years from their date of grant. Options to purchase 32,815 shares of common stock at \$47.89 per share were outstanding at March 31, 2005 and for the quarterly period then ended but were not included in the computation of diluted earnings per share for the first quarter of 2005 because the exercise price of these options was greater than the average market price of the common shares. These antidilutive options were issued on January 20, 2004 and expire ten years from their date of grant.

### 4. Stockholders' Equity

The line captioned repurchase and retirement of common stock in the Consolidated Statements of Changes in Stockholders' Equity includes shares of common stock tendered upon the exercise of stock options. For the three months ended March 31, 2006 no shares of common stock were tendered and, for the same period in 2005, 6,842 shares with a value of \$338,000 were tendered.

**5. Defined Benefit Pension Plan**

The following table sets forth the components of net periodic pension cost for accounting purposes.

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2006</b>	<b>2005</b>
	<i>(in thousands)</i>	
Service cost, net of plan participant contributions	\$ 196	\$ 190
Interest cost	186	173
Expected return on plan assets	(250)	(210)
Net amortization and deferral	12	20
<b>Net pension cost</b>	<b>\$ 144</b>	<b>\$ 173</b>

The Bank makes cash contributions to the pension plan (the Plan) which comply with the funding requirements of applicable Federal laws and regulations. For funding purposes, the laws and regulations set forth both minimum required and maximum tax deductible contributions. The Bank's cash contributions are usually made once a year just prior to the Plan's year end of September 30. The Bank currently expects to contribute \$1,087,431 to the Pension Plan on or before September 30, 2006, representing the maximum tax deductible contribution for the Plan year then ended. In September 2005, the Bank contributed \$1,283,522 to the Pension Plan representing the maximum tax deductible contribution for the Plan year ended September 30, 2005.



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

The following is management's discussion and analysis of certain significant factors that have affected the Corporation's financial condition and operating results during the periods included in the accompanying consolidated financial statements, and should be read in conjunction with such financial statements. The Corporation's financial condition and operating results principally reflect those of its wholly-owned subsidiary, The First National Bank of Long Island, and the Bank's wholly-owned subsidiaries, The First of Long Island Agency, Inc. and FNY Service Corp., an investment company, and FNY Service Corp.'s wholly-owned subsidiary, The First of Long Island REIT, Inc. The consolidated entity is referred to as the Corporation and the Bank and its direct and indirect subsidiaries are collectively referred to as the Bank. The Bank's primary service area has historically been Nassau and Suffolk Counties, Long Island. However, the Bank opened three new commercial banking branches in Manhattan in 2003 and may open additional Manhattan branches in the future.

**Overview**

In the first quarter of 2006 the Corporation earned \$.72 per share versus \$.76 for the same quarter last year. In addition to the negative interest rate environment, earnings are down principally because the first quarter of 2005 included several nonroutine items that on a net basis added six cents to earnings per share. These items included, among others, a refund of real estate taxes previously paid, a reduction in taxes accrued with respect to the Bank's investment subsidiary, and securities losses incurred as part of a securities loss program.

When compared to the same quarter last year, first quarter 2006 earnings were helped by loan growth. Total loans grew by \$55.2 million, or 15.8%, from \$348.9 million at March 31, 2005 to \$404.1 million at March 31, 2006. The loan growth is attributable to management's efforts to change the composition of the Bank's earning assets so as to become more concentrated in loans and less concentrated in securities. Loans now represent 41.7% of total assets versus 36.4% at March 31, 2005. Most of the growth occurred in commercial mortgages which were up by \$24.4 million, or 26.6%, home equity products which were up by \$14.7 million, or 33.1%, and residential mortgages which were up by \$11.4 million, or 7.7%. Management believes that the credit quality of the Bank's loan portfolio continues to be excellent. Also contributing to first quarter 2006 earnings was an increase in yield on the Bank's securities portfolio brought about by, among other things, the securities loss programs conducted in 2005. Securities loss programs enhance future earnings in that they entail selling lower yielding securities at a loss and replacing them with higher yielding securities.

The loan growth and enhanced yield on the securities portfolio helped to mitigate the negative impact of a flattening yield curve and a slowing of deposit growth. The flattening yield curve resulted from a significant increase in short-term interest rates, which drove up the Bank's cost of deposits, accompanied by lesser increases in intermediate and longer-term interest rates, which resulted in only limited opportunity for the Bank to reinvest cash flows from intermediate and longer-term loans and securities at higher yields. The slowing of deposit growth occurred as competition in the Bank's market areas increased and alternatives to bank deposit products became more attractive.

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The flat yield curve is continuing to exert pressure on the Bank's net interest margin. The Bank currently plans to continue growing loans in a measured and disciplined manner and is investing in people and infrastructure to accommodate these plans. Management believes that commercial loan growth in particular, in addition to new branch openings, will be a key driver of future deposit and earnings growth.

In December of last year, the Bank opened a full service branch on the south shore of Long Island in the town of Merrick. This brings the Bank's full service branch count to ten and the overall number of branches to twenty-five. Management currently plans to continue opening branches in key markets on Long Island and in Manhattan.

**Net Interest Income**

**Average Balance Sheet; Interest Rates and Interest Differential.** The following table sets forth the average daily balances for each major category of assets, liabilities and stockholders' equity as well as the amounts and average rates earned or paid on each major category of interest-earning assets and interest-bearing liabilities.

	Three Months Ended March 31,					
	2006			2005		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
<i>(dollars in thousands)</i>						
<b>Assets</b>						
Federal funds sold	\$ 16,487	\$ 182	4.48%	\$ 12,124	\$ 71	2.37%
Investment Securities:						
Taxable	356,800	3,581	4.07	368,785	3,026	3.33
Nontaxable (1)	138,556	2,295	6.63	157,237	2,462	6.26
Loans (1)	390,177	6,170	6.41	345,398	4,981	5.85
Total interest-earning assets	902,020	12,228	5.48	883,544	10,540	4.82
Allowance for loan losses	(3,363)			(2,871)		
Net interest-earning assets	898,657			880,673		
Cash and due from banks	29,388			36,987		
Premises and equipment, net	7,744			6,548		
Other assets	18,061			14,587		
	\$ 953,850			\$ 938,795		
<b>Liabilities and Stockholders Equity</b>						
Savings and money market deposits	\$ 374,743	991	1.07	\$ 431,957	712	.67
Time deposits	112,880	988	3.55	48,378	202	1.69
Securities sold under repurchase agreements	64,655	672	4.22	58,516	321	2.22
Total interest-bearing liabilities	552,278	2,651	1.95	538,851	1,235	.93
Checking deposits (2)	306,575			305,823		
Other liabilities	3,767			4,624		
	862,620			849,298		
Stockholders' equity	91,230			89,497		

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	<u>\$ 953,850</u>	<u>\$ 938,795</u>
Net interest income (1)	<u>\$ 9,577</u>	<u>\$ 9,305</u>
Net interest spread (1)	<u>3.53%</u>	<u>3.89%</u>
Net interest margin (1)	<u>4.31%</u>	<u>4.27%</u>

(1) Tax-equivalent basis.

(2) Includes official check and treasury tax and loan balances.

**Rate/Volume Analysis.** The following table sets forth the effect of changes in volumes, rates, and rate/volume on tax-equivalent interest income, interest expense and net interest income.

	Three Months Ended March 31,			
	2006 Versus 2005			
	Increase (decrease) due to changes in:			
	Volume	Rate	Rate/ Volume <sup>(2)</sup>	Net Change
	(in thousands)			
<b>Interest Income:</b>				
Federal funds sold	\$ 26	\$ 63	\$ 22	\$ 111
Investment securities:				
Taxable	(98)	675	(22)	555
Nontaxable (1)	(293)	142	(16)	(167)
Loans (1)	646	481	62	1,189
<b>Total interest income</b>	<b>281</b>	<b>1,361</b>	<b>46</b>	<b>1,688</b>
<b>Interest Expense:</b>				
Savings and money market deposits	(94)	430	(57)	279
Time deposits	269	221	296	786
Securities sold under repurchase agreements	34	287	30	351
<b>Total interest expense</b>	<b>209</b>	<b>938</b>	<b>269</b>	<b>1,416</b>
<b>Increase (decrease) in net interest income</b>	<b>\$ 72</b>	<b>\$ 423</b>	<b>\$ (223)</b>	<b>\$ 272</b>

(1) Tax-equivalent basis.

(2) Represents the change not solely attributable to change in rate or change in volume but a combination of these two factors. The rate/volume variance could be allocated between the volume and rate variances shown in the table based on the absolute value of each to the total for both.

Net interest income on a tax-equivalent basis increased by \$272,000 from \$9,305,000 for the first quarter of 2005 to \$9,577,000 for the current quarter. As can be seen from the above rate/volume analysis, the increase is comprised of positive volume and rate variances of \$72,000 and \$423,000, respectively, as offset by a negative rate/volume variance of \$223,000.

**Volume Variance.** The most significant reason for the positive volume variance was loan growth resulting from management's efforts to change the composition of the Bank's interest-earning assets so as to become more concentrated in loans and less concentrated in securities. Such efforts involved, among other things, hiring additional commercial lending staff, carefully designed calling programs, a change in lending philosophy, and the promotion of fixed rate, amortizing home equity loans with terms between five and twelve years. When compared to the same quarter last year, the average balance of commercial mortgages was up 21.2% this quarter and home equity loans and residential mortgages combined were up 12.8%.

The Bank experienced a small increase of \$752,000 in the average balance of checking deposits when comparing the current quarter to the same quarter last year. By contrast, checking growth for the first quarter of 2005, 2004, and 2003 was 4.4%, 15.7%, and 12.5%, respectively. Although competition in the Bank's market area caused checking deposit growth to be more modest than that of recent prior years, a significant portion of the Bank's interest-earning assets continues to be funded by checking deposits. Funding interest-earning assets with checking deposits has a greater positive impact on net interest income than funding such assets with interest-bearing deposits because checking deposits, unlike interest-bearing deposits, have no associated interest cost. This



is the primary reason that the growth of checking balances has historically been one of the Corporation's key strategies for increasing earnings per share.

Also contributing to the positive volume variance was growth in time deposit balances. Although a portion of the time deposit growth resulted merely from a migration of funds from lower yielding savings and money market accounts, the balance of the growth was available to fund loan growth.

The Bank's purchase of \$2.5 million of bank owned life insurance in the first quarter of 2006 caused the positive volume variance for the quarter to be lower than it otherwise would have been. This purchase caused a reduction in net interest income with a more than offsetting increase in noninterest income.

**Rate Variance.** Short-term interest rates continued to increase during 2005 and 2006, as evidenced by a 250 basis point increase in both the federal funds target rate and the Bank's prime lending rate between the beginning of 2005 and the end of the current quarter. As a result, the Bank's earnings on its federal funds sold position increased, as did its earnings on those interest-earning assets that reprice with changes in the Bank's prime lending rate or other short-term interest rates. Such assets include a majority of the Bank's commercial loans, home equity lines, and certain adjustable rate commercial and residential mortgages. In addition, the Bank's earnings also increased to the extent that it was able to reinvest cash flows from loans and securities at higher yields.

The increase in short-term interest rates not only caused earnings on certain of the Bank's interest-earning assets to increase, but also drove up the Bank's cost of deposits and borrowings. The cost of deposits increased primarily because the Bank, in response to competition in its market area, introduced better yielding money market products and increased the rates paid on its various time deposit products. Although these pricing initiatives enabled the Bank to attract some new deposit balances, they also resulted in a significant migration of funds from lower to higher yielding deposit products within the Bank. The positive rate variance shown in the preceding table resulted largely because the benefit derived from increases in the federal funds target and prime lending rates, when taken together with the better yields realized on securities purchased as part of the 2005 loss programs, more than offset increases in the cost of deposits and borrowings.

Since the Bank's interest-earning assets generally reprice slower than its interest-bearing liabilities, the increase in short-term interest rates caused the net interest spread to decrease by 36 basis points for the first quarter of 2006 versus the same quarter last year. Despite the decrease in net interest spread, net interest margin increased by 4 points when comparing the same time periods because the volume of interest-earning assets is significantly greater than that of interest-bearing liabilities. This demonstrates the value of funding interest-earning assets with checking deposits and capital which have no associated interest cost.

#### **Application of Critical Accounting Policies**

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported asset and liability balances and revenue and expense amounts. Our determination of the allowance for loan losses is a critical accounting estimate because it is based on our subjective evaluation of a variety of factors at a specific point in time and involves difficult and complex judgments about matters that are inherently uncertain. In the event that management's estimate needs to be adjusted based on, among other things, additional information that comes to light after the estimate is made or changes in circumstances, such adjustment could result in the need

for a significantly different allowance for loan losses and thereby materially impact, either positively or negatively, the Bank's results of operations.

The Bank's Reserve Committee, which is chaired by the Senior Lending Officer, meets on a quarterly basis and is responsible for determining the allowance for loan losses after considering, among other things, the results of credit reviews performed by the Bank's loan review officer. In addition, and in consultation with the Bank's Chief Financial Officer, the Reserve Committee is responsible for implementing and maintaining policies and procedures surrounding the calculation of the required allowance. The Bank's allowance for loan losses is subject to periodic examination by the Office of the Comptroller of the Currency, the Bank's primary federal banking regulator, whose safety and soundness examination includes a determination as to its adequacy to absorb probable losses.

The first step in determining the allowance for loan losses is to identify loans in the Bank's portfolio that are individually deemed to be impaired. In doing so, subjective judgments need to be made regarding whether or not it is probable that a borrower will be unable to pay all principal and interest due according to contractual terms. Once a loan is identified as being impaired, management uses the fair value of the underlying collateral and/or the discounted value of expected future cash flows to determine the amount of the impairment loss, if any, that needs to be included in the overall allowance for loan losses. In estimating the fair value of real estate collateral management utilizes appraisals and also makes qualitative judgments based on, among other things, its knowledge of the local real estate market and analyses of current economic conditions. Estimating the fair value of collateral other than real estate is also subjective in nature and sometimes requires difficult and complex judgments. Determining expected future cash flows can be more subjective than determining fair values. Expected future cash flows could differ significantly, both in timing and amount, from the cash flows actually received over the loan's remaining life.

In addition to estimating losses for loans individually deemed to be impaired, management also estimates collective impairment losses for pools of loans that are not specifically reviewed. Statistical information regarding the Bank's historical loss experience over a period of time is the starting point in making such estimates. However, future losses could vary significantly from those experienced in the past and accordingly management periodically adjusts its historical loss experience to reflect current conditions. In doing so, management considers a variety of general qualitative factors and then subjectively determines the weight to assign to each in estimating losses. The factors include, among others, national and local economic conditions, environmental risks, trends in volume and terms of loans, concentrations of credit, changes in lending policies and procedures, and experience, ability, and depth of the Bank's lending staff. Because of the nature of the factors and the difficulty in assessing their impact, management's resulting estimate of losses may not accurately reflect actual losses in the portfolio.

Although the allowance for loan losses has two separate components, one for impairment losses on individual loans and one for collective impairment losses on pools of loans, the entire allowance for loan losses is available to absorb realized losses as they occur whether they relate to individual loans or pools of loans.

**Asset Quality**

The Corporation has identified certain assets as risk elements. These assets include nonaccruing loans, foreclosed real estate, loans that are contractually past due 90 days or more as to principal or interest payments and still accruing and troubled debt restructurings. These assets present more than the normal risk that the Corporation will be unable to eventually collect or realize their full carrying value. The Corporation's risk elements at March 31, 2006 and December 31, 2005 are as follows:

	<u>March 31,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>
	<i>(dollars in thousands)</i>	
Nonaccruing loans	\$ 294	\$ 151
Loans past due 90 days or more as to principal or interest payments and still accruing		
Foreclosed real estate		
	<u>294</u>	<u>151</u>
Total nonperforming assets		
Troubled debt restructurings		
	<u>294</u>	<u>151</u>
Total risk elements	\$ 294	\$ 151
Nonaccruing loans as a percentage of total loans	<u>.07%</u>	<u>.04%</u>
Nonperforming assets as a percentage of total loans and foreclosed real estate	<u>.07%</u>	<u>.04%</u>
Risk elements as a percentage of total loans and foreclosed real estate	<u>.07%</u>	<u>.04%</u>

**Allowance and Provision For Loan Losses**

The allowance for loan losses grew by \$233,000 during the first quarter of 2006, amounting to \$3,515,000 at March 31, 2006 as compared to \$3,282,000 at December 31, 2005, or .9% of total loans at each date. During the first quarter of 2006, the Bank had loan chargeoffs and recoveries of \$4,000 and \$1,000, respectively, and recorded a \$236,000 provision for loan losses. The provision for loan losses increased by \$86,000 when comparing the first quarter of 2006 to the same period last year primarily as a result of loan growth.

The allowance for loan losses is an amount that management currently believes will be adequate to absorb probable losses inherent in the Bank's loan portfolio. In determining the allowance for loan losses, there is not an exact amount but rather a range for what constitutes an appropriate allowance. As more fully discussed in the "Application of Critical Accounting Policies" section of this discussion and analysis of financial condition and results of operations, the process for estimating credit losses and determining the allowance for loan losses as of any balance sheet date is subjective in nature and requires material estimates. Actual results could differ significantly from these estimates.

The amount of future chargeoffs and provisions for loan losses will be affected by, among other things, economic conditions on Long Island. Such conditions could affect the financial strength of the Bank's borrowers and do affect the value of real estate collateral securing the Bank's mortgage loans. Loans secured by real estate represent approximately 86% of the Bank's total loans outstanding at March 31, 2006. Most of these loans were made to borrowers domiciled on Long Island and are secured by Long Island properties. In recent years, economic conditions on Long Island have been good and residential real estate values have grown to unprecedented highs. Management believes that such values have begun to level off and could deteriorate in the future. Such



deterioration could be substantial. A downturn in local economic conditions could cause some of the Bank's borrowers to be unable to make the required contractual payments on their loans, and the Bank may be unable to realize the full carrying value of such loans through foreclosure. However, management believes that the Bank's underwriting policies are relatively conservative and, as a result, the Bank should be less affected than the overall market.

Future provisions and chargeoffs could also be affected by environmental impairment of properties securing the Bank's mortgage loans. Environmental audits for commercial mortgages were instituted by the Bank in 1987. Under the Bank's current policy, an environmental audit is required on practically all commercial-type properties that are considered for a mortgage loan. At the present time, the Bank is not aware of any existing loans in the portfolio where there is environmental pollution originating on the mortgaged properties that would materially affect the value of the portfolio.

#### **Noninterest Income, Noninterest Expense, and Income Taxes**

Noninterest income includes service charges on deposit accounts, Investment Management Division income, gains or losses on sales of securities, and all other items of income, other than interest, resulting from the business activities of the Corporation. Excluding net losses on sales of securities, noninterest income decreased by \$266,000, or 14.4%, when comparing the first quarter of 2006 to the same period last year. The decrease is comprised of a decrease in other income of \$198,000, a decrease in service charge income of \$47,000, and a decrease in Investment Management Division income of \$21,000. The decrease in other income is due to a \$283,000 recovery of real estate taxes previously paid in the first quarter of 2005. The decrease in Investment Management Division income is attributable to the receipt of a final executor's commission of \$72,000 on one estate in the first quarter of 2005. When compared to the same quarter last year, Investment Management Division income for the current quarter was helped by a revision of the Division's fee schedule in the third quarter 2005.

Noninterest expense is comprised of salaries, employee benefits, occupancy and equipment expense and other operating expenses incurred in supporting the various business activities of the Corporation. Noninterest expense increased by \$287,000, or 4.6%, from \$6,225,000 for the first quarter of 2005 to \$6,512,000 for the current quarter. The increase is primarily comprised of an increase in salaries of \$202,000, or 7.4%, and an increase in other operating expenses of \$109,000, or 8.7%. The increase in salaries is primarily attributable to normal annual salary increases and additions to staff. The largest component of the increase in other operating expenses was an increase in director fees resulting from increases in retainers and per meeting fees effective April 1, 2005. The increase in occupancy and equipment expense is largely attributable to an increase in rent expense. Employee benefits expense is down largely due to a \$52,000 decrease in pension expense.

Income tax expense as a percentage of book income (effective tax rate) was 22.7% for the first quarter of 2006 as compared to 19.5% for the same quarter last year. The benefit of tax-exempt interest on municipal securities results in an effective tax rate that is considerably lower than the statutory Federal income tax rate of 34% despite state income taxes. The increase in the effective tax rate is primarily attributable to a reduction of taxes accrued in the first quarter of 2005 with respect to the Bank's investment subsidiary.

## Capital

The Corporation's capital management policy is designed to build and maintain capital levels that exceed regulatory standards. Under current regulatory capital standards, banks are classified as well capitalized, adequately capitalized or undercapitalized. Under such standards, a well capitalized bank is one that has a total risk-based capital ratio equal to or greater than 10%, a Tier 1 risk-based capital ratio equal to or greater than 6%, and a Tier 1 leverage capital ratio equal to or greater than 5%. The Corporation's total risk-based capital, Tier 1 risk-based capital and Tier 1 leverage capital ratios of 23.80%, 22.94% and 9.76%, respectively, at March 31, 2006 substantially exceed the requirements for a well-capitalized bank.

Total stockholders' equity increased by \$1,425,000, or from \$90,698,000 at December 31, 2005 to \$92,123,000 at March 31, 2006. The increase is primarily attributable to net income of \$2,807,000, as partially offset by \$1,016,000 in unrealized losses on available-for-sale securities and \$391,000 spent for share repurchases.

**Stock Repurchase Program and Market Liquidity.** Since 1988, the Corporation has had a stock repurchase program under which it has purchased, from time to time, shares of its own common stock in market or private transactions. The Corporation's market transactions are generally intended to comply with the manner, timing, price and volume conditions set forth in SEC Rule 10b-18 and therefore, with respect to such transactions, provide the Corporation with safe harbor from liability for market manipulation under section 9(a)(2) and Rule 10b-5 of the Securities Exchange Act of 1934.

The Corporation periodically reevaluates whether it wants to continue purchasing shares of its own common stock in open market transactions under Rule 10b-18 or otherwise. Because the trading volume in the Corporation's common stock is limited, the Corporation believes that a reduction or discontinuance of its share repurchase program could adversely impact market liquidity for its common stock, the price of its common stock, or both. The publicly reported trading volume in the Corporation's common stock for the year ended March 31, 2006 was 1,526,219 shares, 4.2% of which resulted from open market purchases by the Corporation under its share repurchase program.

**Russell 3000®, 2000® and Microcap Indices®.** Frank Russell Company (Russell) currently maintains twenty four U.S. common stock indices. The indices are reconstituted effective the last Friday in June of each year using objective criteria, primarily market capitalization, and do not reflect subjective opinions. All Indices are subsets of the Russell 3000® Index which represents most of the investable U. S. equity market.

Effective June 24, 2005, the Corporation's common stock was no longer included in the Russell 3000® and 2000® Indices but was selected for inclusion in the newly-created Russell Microcap Index®. The Russell Microcap Index® includes the smallest 1,000 companies in terms of market capitalization in the small-cap Russell 2000 Index plus the next 1,000 smaller companies. The average market capitalization of companies in the Russell Microcap Index® is \$217 million, the median market capitalization is \$182.6 million, the capitalization of the largest company in the index is \$539.5 million, and the capitalization of the smallest company in the index is \$54.8 million. The Corporation's market capitalization as of March 31, 2006 was approximately \$163 million.

As with its former inclusion in the Russell 3000® and 2000® Indices, the Corporation believes that inclusion in the Russell Microcap Index® will positively impact the price, trading volume and liquidity of its common stock. Conversely, if the

Corporation's market capitalization falls below the minimum necessary to be included in the Russell Microcap Index® at any future annual reconstitution date, the Corporation believes that this could adversely affect the price, volume and liquidity of its common stock.

### **Cash Flows and Liquidity**

**Cash Flows.** The Corporation's primary sources of cash are deposit growth, maturities and amortization of loans and investment securities, operations, and borrowing. The Corporation uses cash from these and other sources to first fund loan growth. Any remaining cash is used primarily to purchase a combination of short, intermediate, and longer-term investment securities, pay cash dividends, and repurchase common stock under the Corporation's share repurchase program. During the first quarter of 2006, the Corporation's cash and cash equivalent position increased by \$37,499,000. The increase occurred primarily because cash provided by deposit growth, a decrease in the size of the Bank's investment securities portfolio and operations exceeded the cash needed to grow loans and used to repay borrowings under repurchase agreements.

**Liquidity.** The Bank has both internal and external sources of liquidity that can be used to fund loan growth and accommodate deposit outflows. The Bank's primary internal sources of liquidity are its overnight position in federal funds sold; investment securities designated as available-for-sale; and maturities and monthly payments on its investment securities and loan portfolios. At March 31, 2006, the Bank had an overnight federal funds sold position of \$32,700,000 and an available-for-sale securities portfolio of \$228,334,000.

The Bank is a member of the Federal Home Loan Bank of New York ( FHLB ) and has repurchase agreements in place with five brokerage firms. In addition to customer deposits, the Bank's primary external sources of liquidity are secured borrowings from the FHLB under a variety of borrowing arrangements and brokerage firms under repurchase agreements. However, neither the Bank's FHLB membership nor repurchase agreements with brokers represent legal commitments on the part of the FHLB or the brokerage firms to extend credit to the Bank. The amount that the Bank can potentially borrow from the FHLB and brokerage firms is dependent on, among other things, the amount of unencumbered eligible securities that the Bank can use as collateral. At March 31, 2006, the Bank has unencumbered eligible securities collateral of approximately \$195 million.

The Bank can also purchase overnight federal funds on an unsecured basis under lines with two other commercial banks. These lines in the aggregate amount of \$30 million do not represent legal commitments to extend credit on the part of the other banks.

As a backup to borrowing from the FHLB, brokerage firms and other commercial banks, the Bank is eligible to borrow on a secured basis at the Federal Reserve Bank ( FRB ) discount window under the primary credit program. Primary credit, which is normally extended on a very short-term basis, typically overnight, at a rate 100 basis points above the federal funds target rate, is viewed by the FRB as a backup source of short-term funds for sound depository institutions like the Bank. The amount that the Bank can borrow under the primary credit program depends on, among other things, the amount of available eligible collateral.

## Legislation

Commercial checking deposits currently account for approximately 29% of the Bank's total deposits. Congress has been considering legislation that would allow corporate customers to cover checks by sweeping funds from interest-bearing deposit accounts each business day and repeal the prohibition of the payment of interest on corporate checking deposits in the future. Either could have a material adverse impact on the Bank's future results of operations.

## Adoption of New Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 155 Accounting for Certain Hybrid Financial Instruments (SFAS No. 155), which amends FASB Statements No. 133, Accounting For Derivative Instruments and Hedging Activities and No. 140, Accounting For Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS No. 155 is effective for all financial instruments acquired or issued in fiscal years beginning after September 15, 2006. The adoption of SFAS No. 155 is not expected to impact the Corporation's financial statements.

In March 2006, the FASB issued Statement of Financial Accounting Standards No. 156 Accounting for Servicing of Financial Assets (SFAS No. 156), which amends FASB Statement No. 140, Accounting For Transfers and Servicing of Financial Assets and Extinguishments of Liabilities with respect to the accounting for separately recognized servicing assets and servicing liabilities. SFAS No. 156 is effective for fiscal years beginning after September 15, 2006. The adoption of SFAS No. 156 is not expected to impact the Corporation's financial statements.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Bank invests in interest-earning assets which are funded by interest-bearing deposits and borrowings, noninterest-bearing deposits, and capital. The Bank's results of operations are subject to risk resulting from interest rate fluctuations generally and having assets and liabilities that have different maturity, repricing, and prepayment/withdrawal characteristics. The Bank defines interest rate risk as the risk that the Bank's earnings and/or net portfolio value (present value of expected future cash flows from assets less the present value of expected future cash flows from liabilities) will change when interest rates change. The principal objective of the Bank's asset/liability management activities is to maximize net interest income while at the same time maintain acceptable levels of interest rate and liquidity risk and facilitate the funding needs of the Bank.

Because the Bank's loans and investment securities generally reprice slower than its interest-bearing liabilities, an immediate increase in interest rates uniformly across the yield curve should initially have a negative effect on net interest income. However, if the Bank does not increase the rates paid on its deposit accounts as quickly or in the same amount as increases in market interest rates, the magnitude of the negative impact will decline. If the Bank does not increase its deposit rates at all, the impact should be positive. Over a longer period of time, and assuming that interest rates remain stable after the initial rate increase and the Bank purchases securities and originates loans at yields higher than those maturing and reprices loans at higher yields, the impact of an increase in interest rates should be positive. This occurs primarily because with the passage of time more loans and investment securities will reprice at the higher rates and there will be

no offsetting increase in interest expense for those loans and investment securities funded by noninterest-bearing checking deposits and capital.

Conversely, a decrease in interest rates uniformly across the yield curve should initially have a positive impact on the Bank's net interest income. However, if the Bank does not or cannot decrease the rates paid on its deposit accounts as quickly or in the same amount as decreases in market interest rates, the magnitude of the positive impact will decline. If the Bank does not decrease its deposit rates at all, the impact should be negative.

If interest rates decline, or have declined, and are sustained at the lower levels and, as a result, the Bank purchases securities at lower yields and loans are originated or repriced at lower yields, the impact on net interest income should be negative because 39% of the Bank's average interest-earning assets are funded by noninterest-bearing checking deposits and capital.

The Bank monitors and controls interest rate risk through a variety of techniques including the use of interest rate sensitivity models and traditional interest rate sensitivity gap analysis. Through use of the models, the Bank projects future net interest income and then estimates the effect on projected net interest income of various changes in interest rates and balance sheet growth rates. The Bank also uses the models to calculate the change in net portfolio value over a range of interest rate change scenarios.

Traditional gap analysis involves arranging the Bank's interest-earning assets and interest-bearing liabilities by repricing periods and then computing the difference, or interest-rate sensitivity gap, between the assets and liabilities which are estimated to reprice during each time period and cumulatively through the end of each time period.

Both interest rate sensitivity modeling and gap analysis involve a variety of significant estimates and assumptions and are done at a specific point in time. Interest rate sensitivity modeling requires, among other things, estimates of: (1) how much and when yields and costs on individual categories of interest-earning assets and interest-bearing liabilities will adjust because of projected changes in market interest rates; (2) future cash flows; (3) discount rates; and (4) decay or runoff rates for nonmaturity deposits such as checking, savings, and money market accounts.

Gap analysis requires estimates as to when individual categories of interest-sensitive assets and liabilities will reprice and assumes that assets and liabilities assigned to the same repricing period will reprice at the same time and in the same amount. Like sensitivity modeling, gap analysis does not fully take into account the fact that the repricing of some assets and liabilities is discretionary and subject to competitive and other pressures.

Changes in the estimates and assumptions made for interest rate sensitivity modeling and gap analysis could have a significant impact on projected results and conclusions. Therefore, these techniques may not accurately reflect the actual impact of changes in the interest rate environment on the Bank's net interest income or net portfolio value.

The table that follows is provided pursuant to the market risk disclosure rules set forth in Item 305 of Regulation S-K of the Securities and Exchange Commission. The information provided in the following table is based on significant estimates and assumptions and constitutes, like certain other statements included herein, a forward-looking statement. The base case information in the table shows (1) an estimate of the Corporation's net portfolio value at March 31, 2006 arrived at by discounting estimated

future cash flows at current market rates and (2) an estimate of net interest income on a tax-equivalent basis for the year ending March 31, 2007 assuming that maturing assets or liabilities are replaced with new balances of the same type, in the same amount, and at current rate levels and repricing balances are adjusted to current rate levels. For purposes of the base case, nonmaturity deposits are included in the calculation of net portfolio value at their carrying amount. The rate change information in the table shows estimates of net portfolio value at March 31, 2006 and net interest income on a tax-equivalent basis for the year ending March 31, 2007 assuming rate changes of plus 100 and 200 basis points and minus 100 and 200 basis points. The changes in net portfolio value from the base case have not been tax affected. In addition, cash flows for nonmaturity deposits are based on a decay or runoff rate of six years. Also, rate changes are assumed to be shock or immediate changes and occur uniformly across the yield curve regardless of the duration to maturity or repricing of specific assets and liabilities. In projecting future net interest income under the indicated rate change scenarios, activity is simulated by replacing maturing balances with new balances of the same type, in the same amount, but at the assumed rate level and adjusting repricing balances to the assumed rate level.

Based on the foregoing assumptions and as depicted in the table that follows, an immediate increase in interest rates of 100 or 200 basis points would have a negative effect on net interest income over a one-year time period. This is principally because the Bank's interest-bearing deposit accounts reprice faster than its loans and investment securities. However, if the Bank does not increase the rates paid on its deposit accounts as quickly or in the same amount as increases in market interest rates, the magnitude of the negative impact will decline. If the Bank does not increase its deposit rates at all, the impact should be positive. Over a longer period of time, and assuming that interest rates remain stable after the initial rate increase and the Bank purchases securities and originates loans at yields higher than those maturing and reprices loans at higher yields, the impact of an increase in interest rates should be positive. This occurs primarily because with the passage of time more loans and investment securities will reprice at the higher rates and there will be no offsetting increase in interest expense for those loans and investment securities funded by noninterest-bearing checking deposits and capital. Generally, the reverse should be true of an immediate decrease in interest rates of 100 or 200 basis points. However, deposit rates are currently low as indicated by the Bank's overall cost of funds of 195 basis points for the first quarter of 2006. Therefore, while rates on many of the Bank's interest earning assets could drop by 100 or 200 basis points, rates on many of its deposit products could not. It is for this reason that in rates down 100 and 200 basis points the projected increases in net interest income as compared to the base case are less than the projected decreases in rates up 100 and 200 basis points.

Rate Change Scenario	Net Portfolio Value (NPV) at March 31, 2006		Net Interest Income Year Ended March 31, 2007	
	Amount	Percent Change From Base Case	Amount	Percent Change From Base Case
<i>(dollars in thousands)</i>				
+ 200 basis point rate shock	\$ 77,946	(9.8)%	\$ 33,353	(15.1)%
+ 100 basis point rate shock	81,930	(5.2)	36,311	(7.5)
Base case (no rate change)	86,411		39,270	
- 100 basis point rate shock	91,438	5.8	41,802	6.4
- 200 basis point rate shock	97,061	12.3	41,364	5.3

## Forward Looking Statements

Management's Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures About Market Risk contain various forward-looking statements with respect to financial performance and business matters. Such statements are generally contained in sentences including the words expect or could or should or would or believe. The Corporation cautions that forward-looking statements are subject to numerous assumptions, risks and uncertainties, and therefore actual results could differ materially from those contemplated by the forward-looking statements. In addition, the Corporation assumes no duty to update forward-looking statements.

### ITEM 4. CONTROLS AND PROCEDURES

#### (a) Evaluation of Disclosure Controls and Procedures

The Corporation's Chief Executive Officer, Michael N. Vittorio, and Chief Financial Officer, Mark D. Curtis, have evaluated the Corporation's disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Act), as of the end of the period covered by this report. Based upon that evaluation, they have concluded that the Corporation's disclosure controls and procedures are effective in ensuring that information required to be disclosed by the Corporation in the reports that it files or submits under the Act, as amended, is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Such controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to the Corporation's management, including the principal executive and principal financial officers, to allow timely decisions regarding disclosure.

#### (b) Changes in Internal Control Over Financial Reporting

There were no changes in internal control over financial reporting that occurred during the fiscal quarter covered by this report that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

**PART II. OTHER INFORMATION**

## Item 1. Legal Proceedings

From time to time the Corporation and the Bank may be involved in litigation that arises in the normal course of business. As of the date of this Form 10-Q, neither the Corporation nor the Bank is a party to any litigation that management believes could reasonably be expected to have a material adverse effect on the Corporation's or the Bank's financial position or results of operations for an annual period.

## Item 2. Issuer Purchase of Equity Securities

Since 1988, the Corporation has had a stock repurchase program under which it is authorized to purchase, from time to time, shares of its own common stock in market or private transactions. The details of the Corporation's purchases under the stock repurchase program during the first quarter of 2006 are set forth in the table that follows.

**ISSUER PURCHASES OF EQUITY SECURITIES**

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(1)</sup></b>	<b>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(1)</sup></b>
January 1, 2006 to January 31, 2006	1,593	\$ 42.58	1,593	159,557
February 1, 2006 to February 28, 2006	4,575	\$ 43.01	4,575	154,982
March 1, 2006 to March 31, 2006	2,920	\$ 43.00	2,920	152,062

<sup>(1)</sup> All shares purchased by the Corporation under its stock repurchase program in the first quarter of 2006 were purchased under a 100,000 share plan approved by the Corporation's board of directors on May 17, 2005 and publicly announced on May 18, 2005. The Corporation also has a 150,000 share plan, approved by its Board of Directors on January 17, 2006 and publicly announced on January 20, 2006, under which no shares have yet been purchased. The Corporation's share repurchase plans do not have fixed expiration dates.

## Item 5. Other Information

On May 10, 2006, the Corporation issued a press release regarding the Corporation's financial condition as of March 31, 2006 and its results of operations for the three month period then ended. The press release is furnished as Exhibit 99.1 to this Form 10-Q.

## Item 6. Exhibits

a) The following exhibits are included herein.

<b>Exhibit No.</b>	<b>Name</b>
31	Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rules 13a-14(a) and 15d-14(a) of the Exchange Act)
32	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)
99.1	Press Release dated May 10, 2006 regarding the quarterly period ending March 31, 2006



SIGNATURES

Pursuant To The Requirements Of The Securities Exchange Act Of 1934, The Registrant Has Duly Caused This Report To Be Signed On Its Behalf By The Undersigned Thereunto Duly Authorized.

THE FIRST OF LONG ISLAND CORPORATION  
(Registrant)

Date: May 5, 2006

By /s/ MICHAEL N. VITTORIO

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MICHAEL N. VITTORIO  
PRESIDENT & CHIEF EXECUTIVE OFFICER  
(principal executive officer)

By /s/ MARK D. CURTIS

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MARK D. CURTIS  
SENIOR VICE PRESIDENT & TREASURER  
(principal financial and accounting officer)

**EXHIBIT INDEX**

<b>EXHIBIT</b>	<b>DESCRIPTION</b>	<b>EXHIBIT BEGINS ON PAGE NO.</b>
<u>31</u>	<u>Certifications by Chief Executive Officer and Chief Financial Officer In Accordance With Section 302 Of The Sarbanes-Oxley Act of 2002</u>	26
<u>32</u>	<u>Certification by Chief Executive Officer and Chief Financial Officer In Accordance With Section 906 Of The Sarbanes-Oxley Act of 2002</u>	28
<u>99.1</u>	<u>Press Release dated May 10, 2006 regarding the quarterly period ending March 31, 2006</u>	29