

FIRST OF LONG ISLAND CORP
Form 10-Q
August 07, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

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 June 30, 2007

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

(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

(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

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

Edgar Filing: FIRST OF LONG ISLAND CORP - Form 10-Q

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 July 25, 2007
Common stock, \$.10 par value	7,517,138

THE FIRST OF LONG ISLAND CORPORATION
JUNE 30, 2007
INDEX

PART I.	FINANCIAL INFORMATION	PAGE NO.
		<hr/>
Item 1.	Financial Statements	
	<u>Consolidated Balance Sheets (Unaudited)</u> <u>June 30, 2007 and December 31, 2006</u>	1
	<u>Consolidated Statements Of Income (Unaudited)</u> <u>Six and Three Months Ended June 30, 2007 and 2006</u>	2
	<u>Consolidated Statements Of Changes In</u> <u>Stockholders' Equity (Unaudited)</u> <u>Six Months Ended June 30, 2007 and 2006</u>	3
	<u>Consolidated Statements Of Cash Flows (Unaudited)</u> <u>Six Months Ended June 30, 2007 and 2006</u>	4
	<u>Notes To Unaudited Consolidated Financial Statements</u>	5
Item 2.	<u>Management's Discussion and Analysis Of</u> <u>Financial Condition and Results Of Operations</u>	9
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	18
Item 4.	<u>Controls and Procedures</u>	21
PART II.	OTHER INFORMATION	
Item 1.	<u>Legal Proceedings</u>	22
Item 2.	<u>Issuer Purchase of Equity Securities</u>	22
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u>	22
Item 5.	<u>Other Information</u>	23
Item 6.	<u>Exhibits</u>	23
	<u>SIGNATURES</u>	24

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	June 30, 2007	December 31, 2006
	<u> </u>	<u> </u>
Assets:		
Cash and due from banks	\$ 37,180,000	\$ 23,790,000
Federal funds sold	34,000,000	
	<u> </u>	<u> </u>
Cash and cash equivalents	71,180,000	23,790,000
	<u> </u>	<u> </u>
Investment securities:		
Held-to-maturity, at amortized cost (fair value of \$205,028,000 and \$216,845,000)	208,431,000	218,330,000
Available-for-sale, at fair value (amortized cost of \$209,501,000 and \$236,118,000)	207,974,000	236,521,000
	<u> </u>	<u> </u>
	416,405,000	454,851,000
	<u> </u>	<u> </u>
Loans:		
Commercial and industrial	54,063,000	55,444,000
Secured by real estate:		
Commercial mortgages	151,896,000	138,225,000
Construction loans	6,948,000	9,752,000
Residential mortgages	180,036,000	173,757,000
Home equity loans	71,537,000	66,934,000
Other	7,276,000	4,835,000
	<u> </u>	<u> </u>
	471,756,000	448,947,000
Net deferred loan origination costs	852,000	518,000
	<u> </u>	<u> </u>
	472,608,000	449,465,000
Allowance for loan losses	(4,091,000)	(3,891,000)
	<u> </u>	<u> </u>
	468,517,000	445,574,000
	<u> </u>	<u> </u>
Bank premises and equipment, net	9,629,000	8,695,000
Prepaid income taxes	357,000	240,000
Deferred income tax benefits	1,459,000	664,000
Bank-owned life insurance	10,932,000	10,709,000
Other assets	9,339,000	9,643,000
	<u> </u>	<u> </u>
	\$ 987,818,000	\$ 954,166,000
	<u> </u>	<u> </u>
Liabilities:		
Deposits:		

Edgar Filing: FIRST OF LONG ISLAND CORP - Form 10-Q

	June 30, 2007	December 31, 2006
Checking	\$ 335,892,000	\$ 321,524,000
Savings and money market	324,187,000	318,494,000
Time, \$100,000 and over	168,929,000	139,085,000
Time, other	47,464,000	45,694,000
	<u>876,472,000</u>	<u>824,797,000</u>
Securities sold under repurchase agreements	9,781,000	28,143,000
Accrued expenses and other liabilities	4,024,000	5,665,000
	<u>890,277,000</u>	<u>858,605,000</u>

Stockholders Equity:

Common stock, par value \$.10 per share:		
Authorized, 20,000,000 shares:		
Issued and outstanding, 7,574,992 and 3,793,575 shares	757,000	379,000
Surplus	329,000	525,000
Retained earnings	98,083,000	95,122,000
	<u>99,169,000</u>	<u>96,026,000</u>
Accumulated other comprehensive loss net of tax	(1,628,000)	(465,000)
	<u>97,541,000</u>	<u>95,561,000</u>
	<u>\$ 987,818,000</u>	<u>\$ 954,166,000</u>

See notes to unaudited consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2007	2006	2007	2006
Interest income:				
Loans	\$ 15,014,000	\$ 12,929,000	\$ 7,621,000	\$ 6,760,000
Investment securities:				
Taxable	6,442,000	7,169,000	3,066,000	3,588,000
Nontaxable	3,213,000	3,097,000	1,610,000	1,582,000
Federal funds sold	824,000	447,000	549,000	265,000
	<u>25,493,000</u>	<u>23,642,000</u>	<u>12,846,000</u>	<u>12,195,000</u>
Interest expense:				
Savings and money market deposits	2,341,000	2,100,000	1,179,000	1,109,000
Time deposits	4,713,000	2,572,000	2,458,000	1,584,000
Securities sold under repurchase agreements	553,000	1,105,000	121,000	433,000
	<u>7,607,000</u>	<u>5,777,000</u>	<u>3,758,000</u>	<u>3,126,000</u>
Net interest income	17,886,000	17,865,000	9,088,000	9,069,000
Provision for loan losses	203,000	385,000	81,000	149,000
Net interest income after provision for loan losses	<u>17,683,000</u>	<u>17,480,000</u>	<u>9,007,000</u>	<u>8,920,000</u>
Noninterest income:				
Investment Management Division income	927,000	879,000	478,000	428,000
Service charges on deposit accounts	1,396,000	1,571,000	709,000	761,000
Net gains (losses) on sales of securities	17,000	(30,000)		(30,000)
Other	580,000	573,000	274,000	249,000
	<u>2,920,000</u>	<u>2,993,000</u>	<u>1,461,000</u>	<u>1,408,000</u>
Noninterest expense:				
Salaries	6,866,000	6,038,000	3,382,000	3,103,000
Employee benefits	2,017,000	2,439,000	1,027,000	1,235,000
Occupancy and equipment expense	2,203,000	2,006,000	1,095,000	993,000
Other operating expenses	2,747,000	2,788,000	1,408,000	1,428,000
	<u>13,833,000</u>	<u>13,271,000</u>	<u>6,912,000</u>	<u>6,759,000</u>
Income before income taxes	6,770,000	7,202,000	3,556,000	3,569,000
Income tax expense	1,302,000	1,601,000	716,000	775,000
Net income	\$ 5,468,000	\$ 5,601,000	\$ 2,840,000	\$ 2,794,000

Edgar Filing: FIRST OF LONG ISLAND CORP - Form 10-Q

Weighted average:

Common shares	7,593,859	7,671,860	7,591,691	7,658,064
Dilutive stock options and restricted stock units	87,424	92,086	80,802	91,710
	<u>7,681,283</u>	<u>7,763,946</u>	<u>7,672,493</u>	<u>7,749,774</u>

Earnings per share:

Basic	\$.72	\$.73	\$.37	\$.36
Diluted	\$.71	\$.72	\$.37	\$.36
Cash dividends declared per share	\$.28	\$.23	\$.14	\$.23

See notes to unaudited consolidated financial statements

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

Six Months Ended June 30, 2007

	Common Stock			Compre- hensive Income	Retained Earnings	Accumulated Other Compre- hensive Loss	Total
	Shares	Amount	Surplus				
Balance, January 1, 2007	3,793,575	\$ 379,000	\$ 525,000		\$ 95,122,000	\$ (465,000)	\$ 95,561,000
Net Income				\$ 5,468,000	5,468,000		5,468,000
Repurchase and retirement of common stock	(47,610)	(5,000)	(1,033,000)				(1,038,000)
Exercise of stock options, including tax benefit	24,404	3,000	550,000				553,000
Stock-based compensation			287,000				287,000
2-for-1 stock split	3,804,623	380,000			(380,000)		
Cash dividends declared					(2,127,000)		(2,127,000)
Unrealized losses on available- for-sale-securities, net of reclassification adjustment and income taxes				(1,163,000)		(1,163,000)	(1,163,000)
Comprehensive income				\$ 4,305,000			
Balance, June 30, 2007	7,574,992	\$ 757,000	\$ 329,000		\$ 98,083,000	\$ (1,628,000)	\$ 97,541,000
Comprehensive income - three months ended June 30, 2007				\$ 1,470,000			

Six Months Ended June 30, 2006

	Common Stock			Compre- hensive Income	Retained Earnings	Accumulated Other Compre- hensive 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				\$ 5,601,000	5,601,000		5,601,000
Repurchase and retirement of common stock	(28,906)	(3,000)	(1,235,000)				(1,238,000)
Exercise of stock options, including tax benefit	2,325		55,000				55,000
Stock-based compensation			21,000				21,000
Cash dividends declared					(1,719,000)		(1,719,000)
Unrealized losses on available- for-sale-securities, net of reclassification adjustment and income taxes				(1,815,000)		(1,815,000)	(1,815,000)
Transfer from retained earnings to surplus			1,000,000		(1,000,000)		
Comprehensive income				\$ 3,786,000			

Edgar Filing: FIRST OF LONG ISLAND CORP - Form 10-Q

Balance, June 30, 2006	<u>3,820,135</u>	<u>\$ 382,000</u>	<u>\$ 658,000</u>	<u>\$ 92,583,000</u>	<u>\$ (2,020,000)</u>	<u>\$ 91,603,000</u>
Comprehensive income - three months ended June 30, 2006			<u>\$ 1,995,000</u>			

See notes to unaudited consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Six Months Ended June 30,

	2007	2006
--	------	------

Cash Flows From Operating Activities:

Net income	\$ 5,468,000	\$ 5,601,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	203,000	385,000
Deferred income tax credit	(29,000)	(152,000)
Depreciation and amortization	788,000	682,000
Premium amortization on investment securities, net	206,000	181,000
Net losses (gains) on sales of available-for-sale securities	(17,000)	30,000
Stock-based compensation expense	287,000	21,000
Accretion of cash surrender value on bank owned life insurance	(223,000)	(202,000)
Increase in prepaid income taxes	(117,000)	(186,000)
Decrease in other assets	304,000	221,000
Decrease in accrued expenses and other liabilities	(614,000)	(643,000)
Decrease in income taxes payable		(33,000)
Net cash provided by operating activities	<u>6,256,000</u>	<u>5,905,000</u>

Cash Flows From Investing Activities:

Proceeds from sales of available-for-sale securities	5,374,000	15,956,000
Proceeds from maturities and redemptions of investment securities:		
Held-to-maturity	22,412,000	24,649,000
Available-for-sale	47,532,000	49,501,000
Purchase of investment securities:		
Held-to-maturity	(12,560,000)	(4,943,000)
Available-for-sale	(26,431,000)	(53,780,000)
Net increase in loans to customers	(23,146,000)	(48,770,000)
Purchases of bank premises and equipment	(1,722,000)	(1,353,000)
Purchase of bank-owned life insurance		(2,500,000)
Net cash provided by (used in) investing activities	<u>11,459,000</u>	<u>(21,240,000)</u>

Cash Flows From Financing Activities:

Net increase in total deposits	51,675,000	57,091,000
Net decrease in securities sold under repurchase agreements	(18,362,000)	(21,759,000)
Exercise of stock options	553,000	55,000
Repurchase and retirement of common stock	(1,038,000)	(1,238,000)
Cash dividends paid	(3,153,000)	(1,731,000)
Net cash provided by financing activities	<u>29,675,000</u>	<u>32,418,000</u>
Net increase in cash and cash equivalents	<u>47,390,000</u>	<u>17,083,000</u>

Edgar Filing: FIRST OF LONG ISLAND CORP - Form 10-Q

Cash and cash equivalents, beginning of year	<u>23,790,000</u>	<u>24,603,000</u>
Cash and cash equivalents, end of period	<u>\$ 71,180,000</u>	<u>\$ 41,686,000</u>

Supplemental Noncash Disclosures:

Cash dividends payable	\$ 1,060,000	\$ 1,719,000
------------------------	--------------	--------------

The Corporation made interest payments of \$7,339,000 and \$5,580,000 and income tax payments of \$1,395,000 and \$1,966,000 during the first six months of 2007 and 2006, respectively.

See notes to unaudited consolidated financial statements

THE FIRST OF LONG ISLAND CORPORATION AND SUBSIDIARY
JUNE 30, 2007
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 (the Corporation) and its wholly-owned subsidiary, The First National Bank of Long Island (the Bank), and the Bank's wholly-owned (either directly or indirectly) subsidiaries, The First of Long Island Agency, Inc., FNY Service Corp., and 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, 2006.

The consolidated financial information included herein as of and for the periods ended June 30, 2007 and 2006 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, 2006 consolidated balance sheet was derived from the Corporation's December 31, 2006 audited consolidated financial statements.

2. Stock Split

On March 22, 2007, the Corporation announced the declaration of a 2-for-1 stock split which was issued on April 16, 2007. Where applicable, all share and per share amounts included in the consolidated financial statements and notes thereto have been adjusted to reflect the effect of the split.

3. Stock-based Compensation

The Corporation has two share-based compensation plans which are described below. The Corporation's 2006 Stock Compensation Plan (the 2006 Plan) was approved by its shareholders on April 18, 2006 as a successor to the 1996 Stock Option and Appreciation Rights Plan (the 1996 Plan). The 2006 Plan permits the granting of stock options, stock appreciation rights, restricted stock, and restricted stock units (RSUs) to employees and non-employee directors for up to 600,000 shares of common stock of which 419,978 shares remain available for grant as of June 30, 2007. The number of awards that can be granted under the 2006 Plan to any one person in any one fiscal year is limited to 70,000 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. Thus far, the Compensation Committee

has used a five year vesting period and a ten year term for stock options granted under the 2006 Plan and has made the ability to convert RSUs into shares of common stock and the related conversion ratio contingent upon the financial performance of the Corporation in the third year of the three calendar year period beginning in the year in which the RSUs were awarded. 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 and, in accordance with the terms of the related award agreements, all awards granted to date under the 2006 Plan will become immediately exercisable or will immediately vest, as applicable, in the event of retirement or total and permanent disability, as defined, or death.

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 1,080,000 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 50,000. 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.

Fair Value of Stock Option Awards. The fair value of options awarded in 2007 and 2006 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 is the implied yield at the time of grant on U.S. Treasury zero-coupon issues with a remaining term equal to the expected term of the options.

	<u>2007</u>	<u>2006</u>
Expected volatility	25.24%	25.11%
Expected dividends	2.06%	2.09%
Expected term (in years)	6.7	6.7
Risk-free interest rate	4.53%	5.07%

The weighted average grant date fair value of options granted in 2007 and 2006 was \$6.05 and \$5.98, respectively.

Fair Value of Restricted Stock Units. The fair value of restricted stock units is based on the market price of the shares underlying the awards on the grant date, discounted for dividends which are not paid on restricted stock units during the vesting period.

Compensation Expense. Compensation expense for stock options is recognized ratably over the five-year vesting period or the period from the grant date to the participant's eligible retirement date, whichever is shorter. Compensation expense for RSUs is recognized over the three-year performance period and adjusted periodically throughout the period to reflect the estimated probability of vesting. However, if the period between the grant date and the grantee's eligible retirement date is less than three years, compensation

Edgar Filing: FIRST OF LONG ISLAND CORP - Form 10-Q

expense is recognized ratably over this shorter period. The Corporation recorded compensation expense for share-based payments of \$287,000 and recognized income tax benefits of \$113,000 in the first six months of 2007. Compensation expense recorded in the first six months of 2006 was \$21,000 with no related income tax benefit.

Option Activity. On January 18, 2007 the Corporation's board of directors granted 50,248 nonqualified stock options under the 2006 Plan. The options were granted at a price equal to the fair market value of one share of the Corporation's stock on the date of grant.

A summary of options outstanding under the Corporation's stock compensation plans as of June 30, 2007 and changes during the six month period then ended is presented below.

	Number of Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (yrs.)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2007	529,968	\$ 18.25		
Granted	50,248	21.81		
Exercised	(35,452)	14.13		
Forfeited or expired	(2,270)	21.29		
Outstanding at June 30, 2007	542,494	\$ 18.84	6.52	\$ 1,538
Exercisable at June 30, 2007	418,306	\$ 18.13	5.72	\$ 1,538

The total intrinsic value of options exercised during the first six months of 2007 and 2006 was \$272,000 and \$50,000, respectively. The total fair value of options vested during the first six months of 2007 and 2006 was \$251,000 and \$87,000, respectively.

Restricted Stock Activity. On January 18, 2007, the Corporation's Board of Directors granted RSUs under the 2006 Plan. The Corporation's financial performance for 2009 will determine the number of shares of common stock, if any, into which the RSUs can be converted. In the table that follows, the number of shares granted represents the maximum number of shares into which the RSUs can be converted. A summary of the status of the Corporation's nonvested shares as of June 30, 2007 and changes during the six month period then ended is presented below.

	Number of Shares	Weighted- Average Grant-Date Fair Value
Nonvested at January 1, 2007		\$
Granted	28,306	21.06
Vested		
Forfeited		
Nonvested at June 30, 2007	28,306	\$ 21.06

Unrecognized Compensation Cost. As of June 30, 2007, there was \$837,000 of total unrecognized compensation cost related to nonvested equity awards. The cost is expected to be recognized over a weighted-average period of 1.50 years.

Cash Received and Tax Benefits Realized. Cash received from option exercises for the six months ended June 30, 2007 and 2006 was \$501,000 and \$49,000, respectively. The actual tax benefit realized for the tax deductions from option exercises for the first six months of 2007 and 2006 was \$52,000 and \$6,000, respectively.

Other. No cash was used to settle stock options during the first six months of 2007 or 2006. The Corporation uses newly issued shares for stock option exercises and currently plans to use newly issued shares upon the conversion of restricted stock units.

4. Earnings Per Share

Options to purchase 316,062 and 175,272 shares of common stock were outstanding at June 30, 2007 and 2006, respectively, and for the quarterly periods then ended, but were not included in the computation of diluted earnings per share because to do so would have been antidilutive for those periods.

5. Defined Benefit Pension Plan

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

	Six Months Ended June 30,		Three Months Ended June 30,	
	2007	2006	2007	2006
	<i>(in thousands)</i>			
Service cost, net of plan participant contributions	\$ 435	\$ 393	\$ 217	\$ 197
Interest cost	415	372	208	186
Expected return on plan assets	(580)	(501)	(290)	(251)
Net amortization and deferral	10	24	5	12
	<u>\$ 280</u>	<u>\$ 288</u>	<u>\$ 140</u>	<u>\$ 144</u>

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 has no minimum required contribution to the Plan for the plan year ending September 30, 2007, and its maximum tax deductible contribution is approximately \$2,258,000. Subsequent to June 30, 2007, the Bank made a contribution of \$1,000,000 to the Pension Plan for the Plan year ended September 30, 2007. In September 2006, the Bank contributed \$1,087,431 to the Pension Plan representing the maximum tax deductible contribution for the Plan year ended September 30, 2006.

6. Adoption of New Accounting Pronouncement

In June 2006, the FASB issued Interpretation No. 48 Accounting for Uncertainty in Income Taxes (FIN No. 48). FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The adoption of FIN No. 48 on January 1, 2007 had no impact on the Corporation's consolidated financial statements.

The Corporation is subject to U.S. federal income tax as well as New York state income tax. The Corporation is not subject to examination by taxing authorities for years before 2003. The Corporation has no unrecognized tax benefits and does not currently expect to have any in the next twelve months.

The Corporation recognizes interest and/or penalties related to income tax matters in income tax expense. The Corporation did not have any amounts accrued for interest and penalties at January 1, 2007.

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 (either directly or indirectly) subsidiaries, The First of Long Island Agency, Inc., FNY Service Corp., and The First of Long Island REIT, Inc. The consolidated entity is referred to as the Corporation and the Bank and its subsidiaries are collectively referred to as the Bank. The Bank's primary service area is Nassau and Suffolk Counties, Long Island, although the Bank has three commercial banking branches in Manhattan and may open additional Manhattan branches in the future.

Overview

In the first six months of 2007, The First of Long Island Corporation earned \$.71 per share versus \$.72 for the same period last year. In the second quarter of 2007, earnings were \$.37 per share versus \$.36 for the same quarter last year. During the first quarter of this year, the Corporation announced a 2-for-1 stock split and a change in the frequency of its cash dividend from semiannually to quarterly.

Thus far this year, the Corporation has experienced continued loan and deposit growth. Contributing to this growth were recent hires in the Bank's lending and business development groups and branch openings, both in accordance with the Bank's current strategic plan. Although these initiatives should constrain earnings in the near term, both are expected to have positive future impact. Also in accordance with its strategic plan, the Bank has been using runoff from its investment securities portfolio to fund a portion of its loan growth. This has been helpful to the Bank's earnings in that it involves moving monies from lower to higher yielding asset categories.

The current interest rate environment and competitive conditions in the Bank's market area both pose challenges. The yield curve continues to be flat to inverted or, in other words, characterized by short-term interest rates that are as high or higher than intermediate and longer-term interest rates. This negatively impacts the Bank's net interest spread, or the difference between what the Bank pays for deposits and earns on loans and securities, because short-term interest rates are a key driver of the Bank's deposit rates and intermediate and longer-term interest rates are key drivers of yields that can be earned by the Bank on loans and securities. In addition to the unfavorable yield curve, strong competition for loans and deposits in the Bank's market area has put upward pressure on deposit pricing, downward pressure on loan pricing and made core deposit growth challenging. Either a restoration of yield curve slope or a lessening of competition should improve earnings.

The Bank has regulatory approval to open a branch in Suffolk County, Long Island in the town of Babylon. The Babylon branch is expected to open by the end of the year.

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.

Six Months Ended June 30,

	2007			2006		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
<i>(dollars in thousands)</i>						
Assets						
Federal funds sold	\$ 31,723	\$ 824	5.24%	\$ 19,286	\$ 447	4.67%
Investment Securities:						
Taxable	284,785	6,442	4.56	348,958	7,169	4.14
Nontaxable (1)	147,684	4,868	6.59	141,469	4,692	6.63
Loans (1) (2)	458,776	15,015	6.60	401,872	12,931	6.49
Total interest-earning assets	922,968	27,149	5.92	911,585	25,239	5.57
Allowance for loan losses	(4,046)			(3,473)		
Net interest-earning assets	918,922			908,112		
Cash and due from banks	31,962			30,261		
Premises and equipment, net	8,864			7,905		
Other assets	19,011			18,433		
	\$ 978,759			\$ 964,711		
Liabilities and Stockholders' Equity						
Savings and money market deposits	\$ 322,338	2,341	1.46	\$ 369,887	2,100	1.14
Time deposits	204,674	4,713	4.64	135,148	2,572	3.84
Securities sold under repurchase agreements	23,895	553	4.67	50,536	1,105	4.41
Total interest-bearing liabilities	550,907	7,607	2.78	555,571	5,777	2.10
Checking deposits	327,245			314,084		
Other liabilities	3,551			3,324		
	881,703			872,979		
Stockholders' equity	97,056			91,732		
	\$ 978,759			\$ 964,711		
Net interest income (1)		\$ 19,542		\$ 19,462		
Net interest spread (1)			3.14%			3.47%
Net interest margin (1)			4.27%			4.31%

(1)

Edgar Filing: FIRST OF LONG ISLAND CORP - Form 10-Q

Tax-equivalent basis. Interest income on a tax-equivalent basis includes the additional amount of interest income that would have been earned if the Corporation's investment in tax-exempt loans and investment securities had been made in loans and investment securities subject to Federal income taxes yielding the same after-tax income. The tax-equivalent amount of \$1.00 of nontaxable income was \$1.52 in each period presented, based on a Federal income tax rate of 34%.

- ⁽²⁾ For the purpose of these computations, nonaccruing loans are included in the daily average loan amounts outstanding.

Edgar Filing: FIRST OF LONG ISLAND CORP - Form 10-Q

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.

Six Months Ended June 30,				
2007 Versus 2006				
Increase (decrease) due to changes in:				
Volume	Rate	Rate/ Volume ⁽¹⁾	Net Change	
(in thousands)				
Interest Income:				
Federal funds sold	\$ 288	\$ 54	\$ 35	\$ 377
Investment securities:				
Taxable	(1,318)	725	(134)	(727)
Nontaxable	206	(29)	(1)	176
Loans	1,831	222	31	2,084
Total interest income	1,007	972	(69)	1,910
Interest Expense:				
Savings and money market deposits	(270)	586	(75)	241
Time deposits	1,323	540	278	2,141
Securities sold under repurchase agreements	(583)	65	(34)	(552)
Total interest expense	470	1,191	169	1,830
Increase (decrease) in net interest income	\$ 537	\$ (219)	\$ (238)	\$ 80

⁽¹⁾ 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 \$80,000 from \$19,462,000 for the first six months of 2006 to \$19,542,000 for the same period this year. The most significant reason for the growth in net interest income was an increase of 35 basis points in the overall yield on interest-earning assets resulting largely from loan growth and a 100 basis point increase in the Bank's prime lending rate that occurred in the first half of 2006. The loan growth occurred as management used funds from deposit growth and securities runoff to increase the size of the Bank's loan portfolio and thereby improve its current and future earnings prospects. Total loans grew by \$43.4 million, or 10.1%, from \$429.2 million at June 30, 2006 to \$472.6 million at June 30, 2007. Loans now represent 47.8% of total assets and 53.9% of total deposits versus 43.8% of total assets and 50.8% of total deposits at June 30, 2006.

The higher yield on interest-earning assets resulted in an increase in net interest income on those interest-earning assets funded by checking deposits and capital. Checking deposits and capital have no associated interest cost, and 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. When comparing the first six months of 2007 to the same period last year, average checking deposits grew by approximately \$13.2 million, or 4.2%. A significant portion of the Bank's interest-earning assets continues to be funded by such deposits.

As a partial offset to the increase in net interest income realized on interest-earning assets funded by checking deposits and capital, the Bank's net interest spread declined by 33 basis points thus causing a decrease in net interest income on those interest-earning assets funded by interest-bearing liabilities. Net interest spread declined in the presence of a yield curve characterized by short-term interest rates that were as high or higher than intermediate and longer-term interest rates. This negatively impacted the Bank's net interest spread because short-term interest rates are a key driver of the Bank's deposit rates and intermediate and longer-term interest rates are key drivers of yields that can be earned by the Bank on loans and securities. Net interest spread was also negatively impacted by increased competition for loans and deposits in the Bank's market area which put upward pressure on deposit pricing, downward pressure on loan pricing and made core deposit growth challenging. With upward pressure on deposit pricing, funds migrated from the Bank's lower yielding savings and money market products to its higher priced savings and money market products and competitively priced certificates of deposit.

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 June 30, 2007 and December 31, 2006 are as follows:

	June 30, 2007	December 31, 2006
	<u> </u>	<u> </u>
	<i>(dollars in thousands)</i>	
Nonaccruing loans	\$ 121	\$ 135
Loans past due 90 days or more as to principal or interest payments and still accruing	154	50
Foreclosed real estate		
	<u> </u>	<u> </u>
Total nonperforming assets	275	185
Troubled debt restructurings		
	<u> </u>	<u> </u>
Total risk elements	\$ 275	\$ 185
	<u> </u>	<u> </u>
Nonaccruing loans as a percentage of total loans	.03%	.03%
	<u> </u>	<u> </u>
Nonperforming assets as a percentage of total loans and foreclosed real estate	.06%	.04%
	<u> </u>	<u> </u>
Risk elements as a percentage of total loans and foreclosed real estate	.06%	.04%
	<u> </u>	<u> </u>

Allowance and Provision for Loan Losses

The allowance for loan losses grew by \$200,000 during the first six months of 2007, amounting to \$4,091,000 at June 30, 2007 as compared to \$3,891,000 at December 31, 2006. The allowance represented approximately .9% of total loans at each date. During the first six months of 2007 the Bank had loan chargeoffs and recoveries of \$4,000 and \$1,000, respectively, and recorded a \$203,000 provision for loan losses. The provision for loan losses decreased by \$182,000 when comparing the first six months of 2007 to the same period last year primarily as a result of greater loan growth in the first six months of 2006.

The allowance for loan losses is an amount that management currently believes will be adequate to absorb probable incurred losses 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 those 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 87% of the Bank's total loans outstanding at June 30, 2007. 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, despite recent declines, real estate values have grown significantly. Such conditions and values could deteriorate in the future, and such deterioration could be substantial. If this were to occur, some of the Bank's borrowers may 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.

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. Noninterest income decreased by \$73,000, or 2.4%, when comparing the first six months of 2007 to the same period last year. The decrease is principally due to a decrease in service charges on deposit accounts of \$175,000, as partially offset by a \$48,000 increase in Investment Management Division income. Service charge income decreased primarily as a result of reductions in maintenance and activity charges and the volume of returned checks. Service charge income continues to be negatively impacted by increased

competition in the Bank's market area and the maintenance of higher deposit balances by customers.

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 \$562,000, or 4.2%, from \$13,271,000 for the first six months of 2006 to \$13,833,000 for the current six-month period. The increase is primarily comprised of an increase in salaries of \$828,000, or 13.7% and an increase in occupancy and equipment expense of \$197,000, or 9.8%, as partially offset by a decrease in employee benefits expense of \$422,000, or 17.3%. In addition to normal annual salary adjustments, the increase in salaries expense principally resulted from the increases in lending and business development staff and, to a lesser extent, an increase in stock-based compensation expense. A significant reason for the increase in stock-based compensation expense is the timing and nature of equity awards. The increase in occupancy and equipment expense is largely attributable to the opening of the Smithtown branch in the fourth quarter of 2006 and investments in new technology. The decrease in employee benefits expense is primarily the result of the discontinuation of profit sharing contributions beginning in 2007 and a reduction in the cost of the Bank's supplemental executive retirement program (SERP). SERP expense is down partially because of a reduction in the number of SERP plan participants.

Income tax expense as a percentage of book income (effective tax rate) was 19.2% for the first six months of 2007 as compared to 22.2% for the same period last year. The decrease in the effective tax rate is primarily due to the fact that tax-exempt income is a larger portion of pre-tax income in 2007 than it was in 2006.

Results of Operations Three Months Ended June 30, 2007 Versus June 30, 2006

Net income for the second quarter of 2007 was \$2,840,000, or \$.37 per share, as compared to \$2,794,000, or \$.36 per share, for the same quarter last year. The largest components of the increase in net income are a decrease in employee benefits expense of \$208,000, a decrease in the provision for loan losses of \$68,000, an increase in Investment Management Division income of \$50,000, and a decrease in the Corporation's effective tax rate from 21.7% in the second quarter of 2006 to 20.1% for the current quarter. The impact of these items was offset by a \$279,000 increase in salaries and a \$102,000 increase in occupancy and equipment expense. The reasons for these variances are substantially the same as those discussed with respect to the six-month periods.

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 Bank's total risk-based capital, Tier 1 risk-based capital and Tier 1 leverage capital ratios of 21.21%, 20.33% and 9.69%, respectively, at June 30, 2007 substantially exceed the requirements for a well-capitalized bank. The Corporation (on a consolidated basis) is subject to minimum risk-based and leverage capital requirements, which the Corporation substantially exceeds as of June 30, 2007.

Total stockholders' equity increased by \$1,980,000, from \$95,561,000 at December 31, 2006 to \$97,541,000 at June 30, 2007. The increase is largely attributable to net

income of \$5,468,000, as largely offset by \$2,127,000 in cash dividends declared, \$1,163,000 in unrealized losses on available-for-sale securities and \$1,038,000 spent for share repurchases. Also contributing to the increase, but to a much lesser extent, are proceeds from the exercise of stock options and stock-based compensation.

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 June 30, 2007 was 635,303 shares, 2.4% of which resulted from open market purchases by the Corporation under its share repurchase program.

Russell Microcap Index. Frank Russell Company maintains a family of U.S. equity indices. The indices are reconstituted effective the last Friday in June of each year based on market capitalization and do not reflect subjective opinions. All Indices are subsets of the Russell 3000E Index, which represents most of the investable U. S. equity market.

The Corporation's common stock is included in the 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 \$300.9 million, the median market capitalization is \$260.1 million, the capitalization of the largest company in the index is \$711.4 million, and the capitalization of the smallest company in the index is \$78.6 million. The Corporation's market capitalization as of June 30, 2007 was approximately \$158 million.

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 six months of 2007, the Corporation's cash and cash equivalent position increased by \$47,390,000. The increase occurred primarily because cash provided by deposit growth, securities runoff and operations exceeded the cash needed to grow loans and used to

repay borrowings under repurchase agreements. The Corporation has allowed its cash and cash equivalent position to grow in order to be able to fund outstanding credit requests. Commitments to extend credit amounted to \$116,647,000 at June 30, 2007 and \$78,189,000 at December 31, 2006. These amounts include unused home equity lines of \$65,790,000 and \$55,517,000 at June 30, 2007 and December 31, 2006, respectively.

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 June 30, 2007, the Bank had an overnight federal funds sold position of \$34,000,000 and an available-for-sale securities portfolio of \$207,974,000.

The Bank is a member of the Federal Home Loan Bank of New York (FHLB) and has repurchase agreements in place with a number of brokerage firms and commercial banks. In addition to customer deposits, the Bank's primary external sources of liquidity are secured borrowings in the form of FHLB advances and repurchase agreements. However, neither the Bank's FHLB membership nor the repurchase agreements represent legal commitments on the part of the FHLB or repurchase agreement counterparties to extend credit to the Bank. The amount that the Bank can potentially borrow from these parties is dependent on, among other things, the amount of unencumbered eligible securities that the Bank can use as collateral. At June 30, 2007, the Bank has unencumbered eligible securities collateral of approximately \$176 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 \$25 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 28% 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.

Impact of Not Yet Effective Authoritative Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157 Fair Value Measurements (SFAS No. 157). This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued

for fiscal years beginning after November 15, 2007. Management is currently evaluating the impact of SFAS No. 157 on the Corporation's consolidated financial statements.

In September 2006, the FASB Emerging Issues Task Force finalized Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements (EITF 06-4). This issue requires that a liability be recorded during the service period when a split-dollar life insurance agreement continues after employment terminates. Depending on the contractual terms of the split-dollar agreement, the required accrued liability will be based on either the post-employment benefit cost for the continuing life insurance or the future death benefit. EITF 06-4 is effective for fiscal years beginning after December 15, 2007. The adoption of EITF 06-4 is not expected to impact the Corporation's consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115 (SFAS No. 159). SFAS No. 159 permits entities to choose to measure certain financial assets and financial liabilities at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Management is currently evaluating whether or not the fair value option will be applied to any of the Corporation's financial assets or financial liabilities.

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 June 30, 2007 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 June 30, 2008 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 June 30, 2007 and net interest income on a tax-equivalent basis for the year ending June 30, 2008 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, while rates on all of the Bank's interest earning assets could drop by 100 or 200 basis points, rates on a number of its deposit products could not because they are priced at or below 100 basis points. 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 at June 30, 2007		Net Interest Income Year Ending June 30, 2008	
	Amount	Percent Change From Base Case	Amount	Percent Change From Base Case
<i>(dollars in thousands)</i>				
+ 200 basis point rate shock	\$ 76,162	(16.6)%	\$ 34,425	(13.8)%
+ 100 basis point rate shock	83,416	(8.6)	37,187	(6.9)
Base case (no rate change)	91,276		39,948	
- 100 basis point rate shock	99,797	9.3	42,389	6.1
- 200 basis point rate shock	109,045	19.5	43,606	9.2

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 these 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 second quarter of 2007 are set forth in the table that follows.

ISSUER PURCHASES OF EQUITY 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⁽¹⁾	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs⁽¹⁾
April 1, 2007 to April 30, 2007	6,684	\$ 22.04	6,684	184,606
May 1, 2007 to May 31, 2007	38,524	\$ 21.77	38,524	146,082
June 1, 2007 to June 30, 2007	2,402	\$ 21.65	2,402	143,680

⁽¹⁾ All shares purchased by the Corporation under its stock repurchase program in the second quarter of 2007 were purchased under a 300,000 share plan approved by the Corporation's board of directors on January 17, 2006 and publicly announced on January 20, 2006. The Corporation's share repurchase plans do not have fixed expiration dates.

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

The Annual Meeting of Stockholders of The First of Long Island Corporation (the Corporation) held April 17, 2007 was called to elect four directors to serve for two-year terms or until their successors have been elected and qualified.

For the election of directors, each share is entitled to as many votes as there are directors to be elected, and such votes may be cumulated and voted for one nominee or divided among as many different nominees as is desired. If authority to vote for any nominee or nominees is withheld on any proxy, the votes are spread among the remaining nominees. The following table lists the Class I directors elected at the annual meeting and, for each director elected, the number of votes cast for and the number of votes withheld. No other persons were nominated and no other persons received any votes.

Directors Elected At Annual Meeting	Number of Votes	
	Cast For	Withheld
Howard Thomas Hogan Jr.	3,136,467	142,695
J. Douglas Maxwell Jr.	3,149,167	129,995
Walter C. Teagle III	3,137,142	142,020
Michael N. Vittorio	3,136,827	142,335

Edgar Filing: FIRST OF LONG ISLAND CORP - Form 10-Q

The name of each Class II director whose term of office as a director continued after the annual meeting is as follows:

<u>Name</u>	<u>Term as Director Expires</u>
Allen E. Busching	2008
Paul T. Canarick	2008
Alexander L. Cover	2008
Beverly Ann Gehlmeyer	2008
William H. J. Hoefling	2008
Stephen V. Murphy	2008

Item 5. Other Information

On August 7, 2007, the Corporation issued a press release regarding the Corporation's financial condition as of June 30, 2007 and its results of operations for the six and three month periods 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.

<u>Exhibit No.</u>	<u>Name</u>
31	<u>Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rules 13a-14 (a) and 15d-14(a) of the Exchange Act)</u>
32	<u>Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)</u>
99.1	<u>Press Release dated August 7, 2007 regarding the six and three month periods ended June 30, 2007</u>

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: August 2, 2007

By /s/ MICHAEL N. VITTORIO

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

By /s/ MARK D. CURTIS

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

24

EXHIBIT INDEX

<u>EXHIBIT</u>	<u>DESCRIPTION</u>	<u>EXHIBIT BEGINS ON PAGE NO.</u>
31	Certification by Chief Executive Officer and Chief Financial Officer In Accordance With Section 302 Of The Sarbanes-Oxley Act of 2002	26
32	Certification by Chief Executive Officer and Chief Financial Officer In Accordance With Section 906 Of The Sarbanes-Oxley Act of 2002	28
99.1	Press Release dated August 7, 2007 regarding the six and three month periods ending June 30, 2007	29

25
