VeriFone Holdings, Inc.
Form 10-Q
March 06, 2009
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended January 31, 2009

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: 001-32465

VERIFONE HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**04-3692546**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

2099 Gateway Place, Suite 600

San Jose, CA 95110

(Address of principal executive offices with zip code)

(408) 232-7800

(Registrant s telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

At February 28, 2009 the number of shares outstanding of the registrant s common stock, $0.01 par value was 84,455,505.

Table of Contents

VERIFONE HOLDINGS, INC.

TABLE OF CONTENTS

INDEX

PART I FINANCIAL INFORMATION

Item 1	Financial Statements (unaudited):	3
	Condensed Consolidated Statements of Operations for the Three Months Ended January 31, 2009 and 2008	3
	Condensed Consolidated Balance Sheets as of January 31, 2009 and October 31, 2008	4
	Condensed Consolidated Statements of Cash Flows for the Three Months Ended January 31, 2009 and 2008	5
	Notes to Condensed Consolidated Financial Statements	6
Item 2	Management s Discussion and Analysis of Financial Condition and Results of Operations	28
Item 3	Quantitative and Qualitative Disclosures About Market Risk	37
Item 4	Controls and Procedures	39

PART II OTHER INFORMATION

Item 1	Legal Proceedings	41
Item 1A	Risk Factors	41
Item 2	Unregistered Sales of Equity Securities and Use of Proceeds	57
Item 3	Defaults Upon Senior Securities	57
Item 4	Submission of Matters to a Vote of Security Holders	57
Item 5	Other Information	57
Item 6	Exhibits	57
Signatures		58
Exhibit Index		59

EXHIBIT 31.1
EXHIBIT 31.2
EXHIBIT 32.1

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. ***FINANCIAL STATEMENTS (Unaudited)***

VERIFONE HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended January 31, 2009	Three Months Ended January 31, 2008
	(Unaudited) (In thousands, except per share data)	
Net revenues:		
System Solutions	$ 185,841	$ 155,601
Services	28,182	29,920
Total net revenues	214,023	185,521
Cost of net revenues:		
System Solutions	128,111	109,604
Services	16,610	18,553
Total cost of net revenues	144,721	128,157
Gross profit	69,302	57,364
Operating expenses:		
Research and development	17,872	22,462
Sales and marketing	19,407	24,643
General and administrative	30,728	26,066
Amortization of purchased intangible assets	5,871	5,890
Impairment of goodwill	178,257	
Total operating expenses	252,135	79,061
Operating loss	(182,833)	(21,697)
Interest expense	(5,361)	(6,440)
Interest income	647	2,088
Other income (expense), net	4,214	(4,520)
Loss before income taxes	(183,333)	(30,569)
Provision for (benefit of) income taxes	(1,344)	2,929
Net loss	$ (181,989)	$ (33,498)
Net loss per share:		
Basic	$ (2.15)	$ (0.40)
Diluted	$ (2.15)	$ (0.40)
Weighted average shares used in computing net loss per share:		
Basic	84,487	84,153
Diluted	84,487	84,153

The accompanying Notes to Condensed Consolidated Financial Statements

are an integral part of these financial statements.

Table of Contents

VERIFONE HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	January 31, 2009	October 31, 2008 (1)
	(Unaudited)	
	(In thousands, except par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 155,075	$ 157,160
Accounts receivable, net of allowance of $4,949 and $5,033	158,479	170,234
Inventories	139,770	168,360
Deferred tax assets	10,676	9,465
Prepaid expenses and other current assets	60,392	57,631
Total current assets	524,392	562,850
Property, plant and equipment, net	53,316	52,309
Purchased intangible assets, net	81,120	92,637
Goodwill	135,480	321,903
Deferred tax assets	218	1,276
Debt issuance costs, net	11,006	11,704
Other assets	34,800	37,073
Total assets	$ 840,332	$ 1,079,752
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 49,533	$ 81,188
Income taxes payable	4,658	2,185
Accrued compensation	19,274	19,477
Accrued warranty	8,221	8,527
Deferred revenue, net	47,049	47,687
Deferred tax liabilities	1,305	1,805
Accrued expenses	9,040	9,475
Other current liabilities	72,098	91,168
Current portion of long-term debt	5,013	5,022
Total current liabilities	216,191	266,534
Accrued warranty	1,690	1,490
Deferred revenue, net	12,032	13,292
Long-term debt	541,926	543,357
Deferred tax liabilities	63,814	68,928
Other long-term liabilities	42,701	41,939
Total liabilities	878,354	935,540
Minority interest	2,263	2,058
Stockholders equity (deficit):		
Preferred stock: $0.01 par value; 10,000 shares authorized at January 31, 2009 and October 31, 2008; zero shares issued and outstanding as of January 31, 2009 and October 31, 2008		
Common stock: $0.01 par value; 200,000 shares authorized at January 31, 2009 and October 31, 2008; 84,456 and 84,443 shares issued and outstanding as of January 31, 2009 and October 31, 2008	845	845

Additional paid-in capital	664,538	655,974
Accumulated deficit	(686,162)	(504,173)
Accumulated other comprehensive loss	(19,506)	(10,492)
Total stockholders equity (deficit)	(40,285)	142,154
Total liabilities and stockholders equity (deficit)	$ 840,332	$ 1,079,752

(1) Amounts as of October 31, 2008 were derived from the October 31, 2008 audited Consolidated Balance Sheets.

The accompanying Notes to Condensed Consolidated Financial Statements

are an integral part of these financial statements.

4

Table of Contents

VERIFONE HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended January 31, 2009	2008
	(Unaudited) (In thousands)	
Cash flows from operating activities		
Net loss	$ (181,989)	$ (33,498)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization of purchased intangible assets	11,039	14,065
Depreciation and amortization of property, plant, and equipment	3,245	3,027
Amortization of capitalized software	790	471
Impairment of goodwill	178,257	
Write-off of capitalized software	494	2,700
Loss on disposal of property, plant, and equipment	156	
Amortization of debt issuance costs	698	616
Stock-based compensation	8,557	5,470
Other non cash items	213	(227)
Net cash provided by (used in) operating activities before changes in working capital	21,460	(7,376)
Changes in operating assets and liabilities:		
Accounts receivable, net	11,795	11,703
Inventories	28,695	(9,543)
Deferred tax assets	(152)	5,707
Prepaid expenses and other current assets	(2,761)	(16,421)
Other assets	989	(11,370)
Accounts payable	(31,655)	(4,605)
Income taxes payable	2,473	8,179
Tax benefit from stock-based compensation	(1)	(957)
Accrued compensation	(203)	934
Accrued warranty	(106)	(758)
Deferred revenue, net	(1,899)	17,225
Deferred tax liabilities	(5,614)	3,930
Accrued expenses and other liabilities	(15,922)	5,373
Net cash provided by operating activities	7,099	2,021
Cash flows from investing activities		
Purchases of property, plant, and equipment	(4,674)	(5,383)
Software development costs capitalized	(283)	(662)
Acquisition of businesses, net of cash and cash equivalents acquired	(536)	(2,858)
Net cash used in investing activities	(5,493)	(8,903)
Cash flows from financing activities		
Proceeds from debt, net of costs		439
Repayment of debt	(1,417)	(1,250)
Payment of debt amendment fees		(740)
Proceeds from exercises of stock options	19	1,704
Tax benefit of stock-based compensation	1	957

Other		(21)		(31)
Net cash provided by (used in) financing activities		(1,418)		1,079
Effect of foreign currency exchange rate changes on cash and cash equivalents		(2,273)		112
Net decrease in cash and cash equivalents		(2,085)		(5,691)
Cash and cash equivalents, beginning of period		157,160		215,001
Cash and cash equivalents, end of period	$	155,075	$	209,310

Supplemental disclosures of cash flow information

Cash paid for intele="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; MARGIN-RIGHT: 0pt" align="center">Issued	Capital	Earnings	(Loss)Income	Stock	Total		
Balance at December 31, 2010	33,318,943	$34,131	$225,543	$374,700	($9,340)	($17,776)	$607,258
Net income				16,160			16,160
Other comprehensive income, net of tax					6,118		6,118
Dividends declared:							
Common, $0.24 per share				(8,022)			(8,022)
Common stock issued under Stock Plan,							
including tax benefits of $286	109,730	110	1,214				1,324
Stock-based compensation			1,262				1,262
Balance at March 31, 2011	33,428,673	$34,241	$228,019	$382,838	($3,222)	($17,776)	$624,100

The accompanying notes are an integral part of the consolidated financial statements.

COMMUNITY BANK SYSTEM, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(In Thousands)

	Three Months Ended March 31,	
	2011	2010
Other comprehensive income, before tax:		
Change in pension liabilities	$174	$307
Change in unrealized loss on derivative instruments used in cash flow hedges	788	105
Unrealized gains on securities:		
Unrealized holding gains arising during period	8,977	4,362
Other comprehensive income, before tax:	9,939	4,774
Income tax expense related to other comprehensive income	(3,821)	(1,764)
Other comprehensive income, net of tax:	6,118	3,010
Net income	16,160	14,002
Comprehensive income	$22,278	$17,012

The accompanying notes are an integral part of the consolidated financial statements.

COMMUNITY BANK SYSTEM, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In Thousands)

	Three Months Ended March 31, 2011	2010
Operating activities:		
Net income	$16,160	$14,002
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,739	2,449
Amortization of intangible assets	901	1,859
Net amortization (accretion) of premiums & discounts on securities, loans and borrowings	(314)	796
Stock-based compensation	1,262	1,298
Provision for loan losses	1,050	1,820
Amortization of mortgage servicing rights	224	192
Income on bank-owned life insurance policies	(113)	(141)
Net gain on sale of loans and other assets	(388)	(125)
Net change in loans held for sale	3,976	941
Change in other assets and liabilities	(2,416)	(11,659)
Net cash provided by operating activities	23,081	11,432
Investing activities:		
Proceeds from maturities of held-to-maturity investment securities	11,703	28,375
Proceeds from maturities of available-for-sale investment securities	36,760	35,765
Purchases of held-to-maturity investment securities	(2,299)	(318,451)
Purchases of available-for-sale investment securities	(86,795)	(1,560)
Sales of other securities	7	7
Purchases of other securities	0	(3)
Net decrease in loans	24,506	35,329
Cash paid for acquisition	(270)	-
Capital expenditures	(2,137)	(2,999)
Net cash used in investing activities	(18,525)	(223,537)
Financing activities:		
Net increase in deposits	86,986	63,791
Net decrease in borrowings	(75)	(173)
Issuance of common stock	1,324	1,658
Cash dividends paid	(7,976)	(7,211)
Excess tax benefits from stock-based compensation	286	431
Net cash provided by financing activities	80,545	58,496
Change in cash and cash equivalents	85,101	(153,609)
Cash and cash equivalents at beginning of period	211,837	361,876
Cash and cash equivalents at end of period	$296,938	$208,267

Supplemental disclosures of cash flow information:		
Cash paid for interest	$14,882	$17,814
Cash paid for income taxes	124	-
Supplemental disclosures of noncash financing and investing activities:		
Dividends declared and unpaid	8,022	7,268
Transfers from loans to other real estate	912	1,244

The accompanying notes are an integral part of the consolidated financial statements.

7

COMMUNITY BANK SYSTEM, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
March 31, 2011

NOTE A: BASIS OF PRESENTATION

The interim financial data as of and for the three months ended March 31, 2011 is unaudited; however, in the opinion of Community Bank System, Inc. (the "Company"), the interim data includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods in accordance with generally accepted accounting principles ("GAAP"). The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year or any other interim period. Certain prior year amounts in the consolidated financial statements and notes thereto have been reclassified to conform to the current year's presentation.

NOTE B: ACCOUNTING POLICIES

The accounting policies of the Company, as applied in the consolidated interim financial statements presented herein, are substantially the same as those followed on an annual basis as presented on pages 53 through 58 of the Annual Report on Form 10-K for the year ended December 31, 2010.

Critical Accounting Policies

Allowance for Loan Losses
Management continually evaluates the credit quality of the Company's loan portfolio, and performs a formal review of the adequacy of the allowance for loan losses on a quarterly basis. The allowance reflects management's best estimate of probable losses incurred in the loan portfolio. Determination of the allowance is subjective in nature and requires significant estimates. The Company's allowance methodology consists of two broad components - general and specific loan loss allocations.

The general loan loss allocation is composed of two calculations that are computed on five main loan categories: business lending; consumer installment – direct; consumer installment – indirect; home equity; and consumer mortgage. The first calculation determines an allowance level based on historical net charge-off data for each loan category (commercial loans exclude balances with specific loan loss allocations). The second calculation is qualitative and takes into consideration eight qualitative environmental factors: levels and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards, and other changes in lending policies, procedure, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry condition; and effects of changes in credit concentrations. These two calculations are added together to determine the general loan loss allocation. The specific loan loss allocation relates to individual commercial loans that are both greater than $0.5 million and in a nonaccruing status with respect to interest. Specific losses are based on discounted estimated cash flows, including any cash flows resulting from the conversion of collateral or collateral shortfalls. The allowance levels computed from the specific and general loan loss allocation methods are combined with unallocated allowances, if any, to derive the required allowance for loan losses to be reflected on the Consolidated Statement of Condition. As it has in prior periods, the Company strives to continually refine and enhance its loss evaluation and estimation processes.

Loan losses are charged off against the allowance, while recoveries of amounts previously charged off are credited to the allowance. A provision for loan loss is charged to operations based on management's periodic evaluation of factors previously mentioned.

Investment Securities

The Company has classified its investments in debt and equity securities as held-to-maturity or available-for-sale. Held-to-maturity securities are those for which the Company has the positive intent and ability to hold to maturity, and are reported at cost, which is adjusted for amortization of premiums and accretion of discounts. Securities not classified as held-to-maturity are classified as available-for-sale and are reported at fair market value with net unrealized gains and losses reflected as a separate component of shareholders' equity, net of applicable income taxes. None of the Company's investment securities have been classified as trading securities at March 31, 2011. Certain equity securities are stated at cost and include restricted stock of the Federal Reserve Bank of New York and Federal Home Loan Bank of New York.

Fair values for investment securities are based upon quoted market prices, where available. If quoted market prices are not available, fair values are based upon quoted market prices of comparable instruments, or a discounted cash flow model using market estimates of interest rates and volatility. See Notes C and J for further information.

The Company conducts an assessment of all securities in an unrealized loss position to determine if other-than-temporary impairment ("OTTI") exists on a monthly basis. An unrealized loss exists when the current fair value of an individual security is less than its amortized cost basis. The OTTI assessment considers the security structure, recent security collateral performance metrics if applicable, external credit ratings, failure of the issuer to make scheduled interest or principal payments, judgment and expectations of future performance, and relevant independent industry research, analysis and forecasts. The severity of the impairment and the length of time the security has been impaired is also considered in the assessment. The assessment of whether an OTTI decline exists is performed on each security, regardless of the classification of the security as available-for-sale or held-to-maturity and involves a high degree of subjectivity and judgment that is based on the information available to management at a point in time.

An OTTI loss must be recognized for a debt security in an unrealized loss position if there is intent to sell the security or it is more likely than not the Company will be required to sell the security prior to recovery of its amortized cost basis. In this situation, the amount of loss recognized in income is equal to the difference between the fair value and the amortized cost basis of the security. Even if it is not expected that the security will be sold, an evaluation of the expected cash flows to be received is performed to determine if a credit loss has occurred. For debt securities, a critical component of the evaluation for OTTI is the identification of credit-impaired securities, where the Company does not expect to receive cash flows sufficient to recover the entire amortized cost basis of the security. In the event of a credit loss, only the amount of impairment associated with the credit loss would be recognized in income. The portion of the unrealized loss relating to other factors, such as liquidity conditions in the market or changes in market interest rates, is recorded in "accumulated other comprehensive loss".

Equity securities are also evaluated to determine whether the unrealized loss is expected to be recoverable based on whether evidence exists to support a realizable value equal to or greater than the amortized cost basis. If it is probable that the amortized cost basis will not be recovered, taking into consideration the estimated recovery period and the ability to hold the equity security until recovery, OTTI is recognized in earnings equal to the difference between the fair value and the amortized cost basis of the security.

The specific identification method is used in determining the realized gains and losses on sales of investment securities and other-than-temporary impairment charges. Premiums and discounts on securities are amortized and accreted, respectively, on a systematic basis over the period to maturity or estimated life of the related security. Purchases and sales of securities are recognized on a trade date basis.

Income Taxes

The Company and its subsidiaries file a consolidated federal income tax return. Provisions for income taxes are based on taxes currently payable or refundable as well as deferred taxes that are based on temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are reported in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled.

Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority having full knowledge of all relevant information. A tax position meeting the more-likely-than-not recognition threshold should be measured at the largest amount of benefit for which the likelihood of realization upon ultimate settlement exceeds 50 percent.

Intangible Assets

Intangible assets include core deposit intangibles, customer relationship intangibles and goodwill arising from acquisitions. Core deposit intangibles and customer relationship intangibles are amortized on either an accelerated or straight-line basis over periods ranging from 8 to 20 years. The initial and ongoing carrying value of goodwill and other intangible assets is based upon discounted cash flow modeling techniques that require management to make estimates regarding the amount and timing of expected future cash flows. It also requires use of a discount rate that reflects the current return requirements of the market in relation to present risk-free interest rates, required equity market premiums, and company-specific risk indicators.

The Company evaluates goodwill for impairment on an annual basis, or more often if events or circumstances indicate there may be impairment. The fair value of each reporting unit is compared to the carrying amount of that reporting unit in order to determine if impairment is indicated. If so, the fair value of the reporting units' goodwill is compared to its carrying amount and the impairment loss is measured by the excess of the carrying value over fair value.

Retirement Benefits

The Company provides defined benefit pension benefits and post-retirement health and life insurance benefits to eligible employees. The Company also provides deferred compensation and supplemental executive retirement plans for selected current and former employees and officers. Expense under these plans is charged to current operations and consists of several components of net periodic benefit cost based on various actuarial assumptions regarding future experience under the plans, including discount rate, rate of future compensation increases and expected return on plan assets.

New Accounting Pronouncements

In April 2011, the FASB issued ASU 2011-02, Receivables (Topic 310), A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring. This guidance amends accounting and disclosure guidance relating to a creditor's determination of whether a restructuring is a troubled debt restructuring. The amendments clarify the guidance on a creditor's evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties. The updated guidance and related disclosure requirements are effective for financial statements issued for the first interim or annual period beginning on or after June 15, 2011, and should be applied retroactively to the beginning of the annual period of adoption. Early adoption is permitted. Management is currently evaluating the impact of the guidance on the Company's financial position or results of operations.

NOTE C: INVESTMENT SECURITIES

The amortized cost and estimated fair value of investment securities as of March 31, 2011 and December 31, 2010 are as follows:

	March 31, 2011				December 31, 2010			
(000's omitted)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held-to-Maturity Portfolio:								
U.S. Treasury and agency securities	$478,190	$17,852	$0	$496,042	$478,100	$21,571	$29	$499,642
Government agency mortgage-backed securities	48,489	2,365	0	50,854	56,891	2,753	0	59,644
Obligations of state and political subdivisions	66,599	802	1,086	66,315	67,864	277	1,691	66,450
Other securities	47	0	0	47	53	0	0	53
Total held-to-maturity portfolio	$593,325	$21,019	$1,086	$613,258	$602,908	$24,601	$1,720	$625,789
Available-for-Sale Portfolio:								
U.S. Treasury and agency securities	$323,545	$21,743	$0	$345,288	$281,826	$22,231	$0	$304,057
Obligations of state and political subdivisions	534,421	11,472	3,615	542,278	518,216	10,197	6,195	522,218
Government agency mortgage-backed securities	165,374	8,434	182	173,626	170,673	9,159	116	179,716
Pooled trust preferred securities	69,164	0	20,992	48,172	69,508	0	27,515	41,993
Corporate debt securities	24,016	1,573	0	25,589	25,523	1,634	0	27,157
Government agency collateralized mortgage obligations	9,665	410	0	10,075	9,904	491	0	10,395
Marketable equity securities	380	67	0	447	380	54	7	427
	$1,126,565	$43,699	$24,789	$1,145,475	$1,076,030	$43,766	$33,833	$1,085,963

Total available-for-sale portfolio

A summary of investment securities that have been in a continuous unrealized loss position for less than ,or greater, than twelve months is as follows:

As of March 31, 2011

	Less than 12 Months		12 Months or Longer		Total	
(000's omitted)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Held-to-Maturity Portfolio:						
Obligations of state and political subdivisions	$26,414	$1,086	$0	$0	$26,414	$1,086
Total held-to-maturity portfolio	26,414	1,086	0	0	26,414	1,086
Available-for-Sale Portfolio:						
Obligations of state and political subdivisions	130,033	3,081	4,034	534	134,067	3,615
Government agency mortgage-backed securities	17,257	182	0	0	17,257	182
Pooled trust preferred securities	0	0	48,172	20,992	48,172	20,992
Total available-for-sale portfolio	147,290	3,263	52,206	21,526	199,496	24,789
Total investment portfolio	$173,704	$4,349	$52,206	$21,526	$225,910	$25,875

10

As of December 31, 2010

(000's omitted)	Less than 12 Months Fair Value	Less than 12 Months Gross Unrealized Losses	12 Months or Longer Fair Value	12 Months or Longer Gross Unrealized Losses	Total Fair Value	Total Gross Unrealized Losses
Held-to-Maturity Portfolio:						
U.S. Treasury and agency securities	$14,967	$29	$0	$0	$14,967	$29
Obligations of state and political subdivisions	43,851	1,691	0	0	43,851	1,691
Total held-to-maturity portfolio	58,818	1,720	0	0	58,818	1,720
Available-for-Sale Portfolio:						
Obligations of state and political subdivisions	197,066	5,705	4,049	490	201,115	6,195
Pooled trust preferred securities	0	0	41,993	27,515	41,993	27,515
Government agency mortgage-backed securities	14,690	116	0	0	14,690	116
Marketable equity securities	210	2	11	5	221	7
Total available-for-sale portfolio	211,966	5,823	46,053	28,010	258,019	33,833
Total investment portfolio	$270,784	$7,543	$46,053	$28,010	$316,837	$35,553

Included in the available-for-sale portfolio are pooled trust preferred, class A-1 securities with a current total par value of $70.8 million and unrealized losses of $21.0 million at March 31, 2011. The underlying collateral of these assets is principally trust-preferred securities of smaller regional banks and insurance companies. The Company's securities are in the super-senior cash flow tranche of the investment pools. All other tranches in these pools will incur losses before the super senior tranche is impacted. As of March 31, 2011, an additional 31% - 38% of the underlying collateral in these securities would have to be in deferral or default concurrently to result in an expectation of non-receipt of contractual cash flows.

In determining if unrealized losses are other-than-temporary, management considers the following factors: the length of time and extent that fair value has been less than cost; the financial condition and near term prospects of the issuers; any external credit ratings; the level of excess cash flows generated from the underlying collateral supporting the principal and interest payments of the debt securities; the level of credit enhancement provided by the structure; and the Company's ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value. A detailed review of the pooled trust preferred securities was completed for the quarter ended March 31, 2011. This review included an analysis of collateral reports, a cash flow analysis, including varying degrees of projected deferral/default scenarios, and a review of various financial ratios of the underlying banks and insurance companies that make up the collateral pool. Based on the analysis performed, significant further deferral/defaults and further erosion in other underlying performance conditions would have to exist before the Company would incur a loss. Therefore, the Company determined an other-than-temporary impairment did not exist at March 31, 2011. To date, the Company has received all scheduled principal and interest payments and expects to fully collect all future contractual principal and interest payments. The Company does not intend to sell and it is not more likely than not that the Company will be required to sell the underlying securities. Subsequent changes in market or credit conditions could change those evaluations.

Management does not believe any individual unrealized loss as of March 31, 2011 represents an other-than-temporary impairment. The unrealized losses reported pertaining to government guaranteed mortgage-backed securities relate primarily to securities issued by GNMA, FNMA and FHLMC, who are currently rated AAA by Moody's Investor Services and Standard & Poor's and are guaranteed by the U.S. government. The obligations of state and political subdivisions are general purpose debt obligations of various states and political subdivisions. The unrealized losses in the portfolios are primarily attributable to changes in interest rates. The Company does not intend to sell these securities, nor is it more likely than not that the Company will be required to sell these securities prior to recovery of the amortized cost.

The amortized cost and estimated fair value of debt securities at March 31, 2011, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	Held-to-Maturity		Available-for-Sale	
(000's omitted)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$8,583	$8,688	$73,566	$74,914
Due after one through five years	63,550	66,662	168,362	176,258
Due after five years through ten years	401,953	416,729	298,970	316,620
Due after ten years	70,750	70,325	410,248	393,535
Subtotal	544,836	562,404	951,146	961,327
Government agency collateralized mortgage obligations	0	0	9,665	10,075
Government agency mortgage-backed securities	48,489	50,854	165,374	173,626
Total	$593,325	$613,258	$1,126,185	$1,145,028

NOTE D: LOANS

The segments of the Company's loan portfolio are disaggregated into classes to a level that allows management to monitor risk and performance. Consumer mortgages consist primarily of fixed rate residential instruments, typically 15 – 30 years in contractual term, secured by first liens on a property. Business lending is comprised of general purpose commercial and industrial loans including agricultural-related and dealer floor plans, as well as mortgages on commercial property. Consumer installment – indirect consists primarily of loans originated through selected dealerships and are secured by automobiles, marine and other recreational vehicles. Home equity products are consumer purpose installment loans or lines of credit most often secured by a first or second lien position on residential real estate with terms of 15 years or less. Consumer installment – direct are all other loans to consumers such as personal installment loans and lines of credit. Loans are summarized as follows:

(000's omitted)	March 31, 2011	December 31, 2010
Consumer mortgage	$1,055,164	$1,057,332
Business lending	1,006,114	1,023,286
Consumer installment - indirect	500,058	494,813
Home equity	299,925	305,936
Consumer installment - direct	139,183	144,996
Gross loans, including	3,000,444	3,026,363

deferred origination costs		
Allowance for loan losses	(42,147)	(42,510)
Loans, net of allowance for loan losses	$2,958,297	$2,983,853

Credit Quality

Management monitors the credit quality of its loan portfolio on an ongoing basis. Measurement of delinquency and past due status are based on the contractual terms of each loan. Past due loans are reviewed on a monthly basis to identify loans for non-accrual status. The following is an aged analysis of the Company's past due loans, by class as of March 31, 2011:

(000's omitted)	30 - 89 days	90+ Days Past Due and Still Accruing	Nonaccrual	Total Past Due	Current	Total Loans
Consumer mortgage	$10,752	$2,203	$5,832	$18,787	$1,036,377	$1,055,164
Business lending	5,421	184	7,788	13,393	992,721	1,006,114
Consumer installment - indirect	6,426	37	0	6,463	493,595	500,058
Home equity	2,084	273	1,333	3,690	296,235	299,925
Consumer installment – direct	1,524	77	0	1,601	137,582	139,183
Total	$26,207	$2,774	$14,953	$43,934	$2,956,510	$3,000,444

The following is an aged analysis of the Company's past due loans by class as of December 31, 2010:

(000's omitted)	30 - 89 days	90+ Days Past Due and Still Accruing	Nonaccrual