

CANANDAIGUA NATIONAL CORP

Form 10-Q

November 07, 2011

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

FORM 10-Q

- [Ö] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2011**
- 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: 2-94863

CANANDAIGUA NATIONAL CORPORATION
(Exact name of registrant as specified in its charter)

New York
*(State or other jurisdiction of
incorporation or organization)*

16-1234823
*(IRS Employer Identification
Number)*

**72 South Main Street
Canandaigua, New York**
(Address of principal executive offices)

14424
(Zip code)

(585) 394-4260
(Registrant's telephone number, including area code)

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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, and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒

No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months.

Yes ☒

No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company.

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

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 ☒

The registrant had 1,887,999 shares of common stock, par value \$5.00, outstanding at October 29, 2011.

Forward-Looking Statements

This report, including information incorporated by reference, contains, and future filings by Canandaigua National Corporation on Forms 10-K, 10-Q and 8-K and future oral and written statements, press releases, and letters to shareholders by Canandaigua National Corporation and its management may contain, certain "forward-looking statements" intended to qualify for the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. When used or incorporated by reference in the Company's disclosures and documents, the words "anticipate," "believe," "contemplate," "estimate," "expect," "foresee," "project," "target," "goal," "budget" and similar expressions are intended to identify forward-looking statements within the meaning of Section 27A of the Securities Act. Such forward-looking statements are subject to certain risks discussed within this document and the Company's most recent Annual Report on Form 10-K. These forward-looking statements are based on currently available financial, economic, and competitive data and management's views and assumptions regarding future events. These forward-looking statements are inherently uncertain, so should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, expected, projected, targeted, or budgeted. Certain matters which management has identified, which may cause material variations are noted elsewhere herein and in the Company's other publicly filed reports. These forward-looking statements speak only as of the date of the document. We expressly disclaim any obligation or undertaking to publicly release any updates or revisions to any forward-looking statement contained herein. We caution readers not to place undue reliance on any of these forward-looking statements.

CANANDAIGUA NATIONAL CORPORATION AND SUBSIDIARIES
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September 30, 2011

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PART I FINANCIAL INFORMATIONItem 1. Financial Statements**CANANDAIGUA NATIONAL CORPORATION AND SUBSIDIARIES**
CONDENSED CONSOLIDATED BALANCE SHEETS

September 30, 2011 and December 31, 2010 (Unaudited)

(dollars in thousands, except per share data)

		September 30, 2011	December 31, 2010
Assets			
Cash and due from banks	\$	35,400	28,951
Interest-bearing deposits with other financial institutions		6,917	4,200
Federal funds sold		130,063	105,078
Securities:			
- Available for sale, at fair value		112,634	113,995
- Held-to-maturity (fair value of \$163,121 in 2011 and \$160,401 in 2010)		157,670	155,881
Loans - net		1,206,660	1,189,221
Premises and equipment - net		15,543	14,370
Accrued interest receivable		6,964	6,337
Federal Home Loan Bank stock and Federal Reserve Bank stock		2,656	2,460
Goodwill		8,818	8,818
Intangible assets		5,058	5,724
Prepaid FDIC assessment		4,156	5,175
Other assets		22,419	21,294
Total Assets	\$	1,714,958	1,661,504
Liabilities and Stockholders' Equity			
Deposits:			
Demand			
Non-interest bearing	\$	219,949	186,289
Interest bearing		175,372	150,360
Savings and money market		699,753	648,291
Time		420,760	488,390
Total deposits		1,515,834	1,473,330
Borrowings		-	330
Junior subordinated debentures		51,547	51,547
Accrued interest payable and other liabilities		16,259	12,503
Total Liabilities		1,583,640	1,537,710
Stockholders' Equity:			
Preferred stock, \$.01 par value; 4,000,000 shares authorized, no shares issued or outstanding		-	-
Common stock, \$5.00 par value; 16,000,000 shares			

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authorized, 1,946,496 shares issued in 2011 and 2010	9,732	9,732
Additional paid-in-capital	8,829	8,823
Retained earnings	118,771	109,768
Treasury stock, at cost (58,497 shares at September 30, 2011) and 57,748 at December 31, 2010)	(4,810)	(4,728)
Accumulated other comprehensive income, net	(1,204)	199
Total Stockholders' Equity	131,318	123,794
Total Liabilities and Stockholders' Equity	\$ 1,714,958	1,661,504

See accompanying notes to condensed consolidated financial statements.

CANANDAIGUA NATIONAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

For the three and nine month periods ended September 30, 2011 and 2010 (Unaudited)

(dollars in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Interest income:				
Loans, including fees	\$ 16,117	17,250	\$ 48,373	50,370
Securities	1,917	2,120	5,997	6,589
Federal funds sold and other	108	61	318	174
Total interest income	18,142	19,431	54,688	57,133
Interest expense:				
Deposits	2,126	2,975	7,217	9,162
Borrowings	-	29	-	202
Junior subordinated debentures	706	773	2,193	2,250
Total interest expense	2,832	3,777	9,410	11,614
Net interest income	15,310	15,654	45,278	45,519
Provision for loan losses	1,500	1,700	2,390	4,650
Net interest income after provision for loan losses	13,810	13,954	42,888	40,869
Other income:				
Service charges on deposit accounts	2,808	2,799	8,115	8,096
Trust and investment services income	3,185	2,659	9,401	8,063
Net gain on sale of mortgage loans	567	560	1,377	1,470
Loan servicing income, net	235	231	701	644
Loan-related fees	110	120	275	271
(Loss) on calls of securities, net	(34)	(66)	(131)	(170)
Other operating income	467	485	1,711	1,315
Total other income	7,338	6,788	21,449	19,689
Operating expenses:				
Salaries and employee benefits	7,958	7,707	23,783	22,227
Occupancy, net	1,731	1,590	5,447	5,029
Technology and data processing	1,082	1,009	3,233	2,914
Professional and other services	815	652	2,618	2,516
Marketing and public relations	657	638	1,965	1,788
Office supplies, printing and postage	364	447	1,140	1,166
Intangible amortization	221	249	665	746
Other real estate operations	276	315	682	729
Other operating expenses	857	1,789	4,584	5,078

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	Total operating expenses	13,961	14,396	44,117	42,193
	Income before income taxes	7,187	6,346	20,220	18,365
Income taxes		2,162	1,627	5,812	4,775
	Net income	5,025	4,719	14,408	13,590
Basic earnings per share	\$	2.66	2.49	\$	7.63
Diluted earnings per share	\$	2.61	2.45	\$	7.49

See accompanying notes to condensed consolidated financial statements.

CANANDAIGUA NATIONAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the nine-month periods ended September 30, 2011 and 2010 (Unaudited)

(dollars in thousands, except share data)

	Number of Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2010	1,888,748	\$ 9,732	8,823	109,768	(4,728)	199	123,794
Comprehensive income:							
Change in fair value of interest rate swaps, net of taxes of (\$925)		-	-	-	-	(2,029)	(2,029)
Change in unrealized gain on securities available for sale, net of taxes of \$245		-	-	-	-	488	488
Plus reclassification adjustment for realized losses included in net income on called securities, net of taxes of \$66		-	-	-	-	138	138
Net income		-	-	14,408	-	-	14,408
Total comprehensive income	(1,048)	-	-	14,408	-	(1,403)	13,005
		-	-	-	(107)	-	(107)

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Purchase of treasury stock							
Shares issued as compensation	299	-	6	-	25	-	31
Cash dividend - \$ 2.87 per share		-	-	(5,405)	-	-	(5,405)
Balance at September 30, 2011	1,887,999	\$ 9,732	8,829	118,771	(4,810)	(1,204)	131,318
Balance at December 31, 2009	1,883,344	\$ 9,732	8,591	97,795	(5,143)	760	111,735
Comprehensive income:							
Change in fair value of interest rate swaps, net of taxes of (\$456)		-	-	-	-	(714)	(714)
Change in unrealized gain on securities available for sale, net of taxes of (\$456)		-	-	-	-	248	248
Plus reclassification adjustment for realized losses included in net income on called securities, net of taxes of \$44		-	-	-	-	86	86
Net income		-	-	13,590	-	-	13,590
Total comprehensive income		-	-	13,590	-	(380)	13,210
Purchase of treasury stock	(2,176)	-	-	-	(186)	-	(186)
Shares issued as compensation	624	-	-	-	54	-	54
Exercise of stock options, including tax benefit of \$232	10,344	-	232	(562)	872	-	542

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Cash dividend - \$ 2.72 per share		-	-	(5,121)	-	-	(5,121)
Balance at September 30, 2010	1,892,136	\$ 9,732	8,823	105,702	(4,403)	380	120,234

See accompanying notes to condensed consolidated financial statements.

CANANDAIGUA NATIONAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the nine-month periods ended September 30, 2011 and 2010 (Unaudited)
(dollars in thousands)

	2011	2010
Cash flow from operating activities:		
Net income	\$ 14,408	13,590
Adjustments to reconcile net income to		
Net cash provided by operating activities:		
Depreciation, amortization and accretion	4,117	3,916
Provision for loan losses	2,390	4,650
Gain on sale of premises and equipment and other real estate, net	(27)	(48)
Writedown of other real estate	-	45
Deferred income tax benefit	(270)	(906)
Income from equity-method investments, net	(388)	(38)
Loss on calls of securities and write-down, net	131	170
Gain on sale of mortgage loans, net	(1,377)	(1,470)
Originations of loans held for sale	(105,524)	(139,475)
Proceeds from sale of loans held for sale	114,120	134,070
(Increase) decrease in other assets	(593)	980
Increase (decrease) in all other liabilities	802	(1,694)
Net cash provided by operating activities	27,789	13,790
Cash flow from investing activities:		
Securities available-for-sale:		
Proceeds from maturities and calls	61,697	51,885
Purchases	(59,540)	(47,813)
Securities held to maturity:		
Proceeds from maturities and calls	38,801	23,746
Purchases	(41,497)	(19,802)
Loan originations in excess of principal collections, net	(27,684)	(57,221)
Purchase of premises and equipment, net	(2,830)	(3,026)
Purchases of FRB and FHLB stock, net	(196)	236
Investment in equity-method investments	(5)	(759)
Proceeds from sale of other real estate	923	1,392
Net cash used by investing activities	(30,331)	(51,362)
Cash flow from financing activities:		
Net increase in demand, savings and money market deposits	110,134	110,870
Net decrease in time deposits	(67,630)	(10,947)

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Principal repayments of term borrowings	(330)	(9,356)
Proceeds from sale of treasury stock	31	54
Payments to acquire treasury stock	(107)	(186)
Proceeds from issuance of treasury stock under stock option plan	-	310
Tax benefit from stock option exercise	-	232
Dividends paid	(5,405)	(5,121)
Net cash provided by financing activities	36,693	85,856
Net increase in cash and cash equivalents	34,151	48,284
Cash and cash equivalents - beginning of period	138,229	78,224
Cash and cash equivalents - end of period	\$ 172,380	126,508
Supplemental disclosure of cash flow information:		
Interest paid	\$ 9,867	11,646
Income taxes paid	5,135	5,668
Supplemental schedule of noncash investing activities		
Real estate acquired in settlement of loans	\$ 636	1,923

See accompanying notes to condensed consolidated financial statements.

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CANANDAIGUA NATIONAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

(1) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and applicable regulations of the Securities and Exchange Commission (SEC) and with generally accepted accounting principles for interim financial information. Such principles are applied on a basis consistent with those reflected in the December 31, 2010 Form 10-K Report of the Company filed with the SEC. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. Management has prepared the financial information included herein without audit by an independent registered public accounting firm. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three- and nine-month periods ended September 30, 2011, are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010 (the 2010 Annual Report).

Amounts in prior periods' condensed consolidated financial statements are reclassified whenever necessary to conform to the current year's presentation.

Management has evaluated the impact of subsequent events on these financial statements to the date of filing of this Form 10-Q with the Securities and Exchange Commission.

Effective August 31, 2010, CNB Mortgage Company (CNB Mortgage) became a wholly-owned subsidiary of The Canandaigua National Bank and Trust Company (the Bank). It was formerly a wholly-owned subsidiary of Canandaigua National Corporation. The reason for the change was to bring CNB Mortgage under the federal banking regulatory structure from New York State's banking regulatory structure, which had become increasingly rigid and costly. There was no change in the consolidated financial results, in segment reporting, or in management of the companies.

(2) Securities

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Amortized cost and fair value of available-for-sale and held-to-maturity securities at September 30, 2011 are summarized as follows:

		September 30, 2011 Gross Unrealized		
	Amortized Cost	Gains	Losses	Fair Value
<u>Securities Available for Sale:</u>				
U.S. Treasury	\$ 501	1	-	502
Government sponsored enterprise obligations	49,600	357	(37)	49,920
State and municipal obligations	57,776	2,139	(21)	59,894
Corporate obligations ⁽¹⁾	1,189	5	(290)	904
Equity securities	1,296	118	-	1,414
Total Securities Available for Sale	\$ 110,362	2,620	(348)	112,634

⁽¹⁾Amortized cost includes cumulative \$860,000 write-down prior to 2010 for other-than-temporary impairment.

<u>Securities Held to Maturity:</u>				
Government sponsored enterprise obligations	\$ 1,007	5	(1)	1,011
State and municipal obligations	155,785	5,314	(174)	160,925
Corporate obligations	878	307	-	1,185
 Total Securities Held to Maturity	 \$ 157,670	 5,626	 (175)	 163,121

CANANDAIGUA NATIONAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

(2) Securities (continued)

The amortized cost and fair value of debt securities by years to maturity as of September 30, 2011, follow (in thousands). Maturities of amortizing securities are classified in accordance with their contractual repayment schedules. Expected maturities will differ from contracted maturities since issuers may have the right to call or prepay obligations without penalties.

	Available for Sale		Held to Maturity	
	Amortized		Amortized	
<u>Years</u>	Cost ⁽¹⁾	Fair Value	Cost	Fair Value
Under 1	\$ 19,803	20,041	28,384	28,805
1 to 5	42,277	44,134	110,886	115,276
5 to 10	43,883	44,095	17,504	17,835
10 and over	3,103	2,950	896	1,205
Total	\$ 109,066	111,220	157,670	163,121

⁽¹⁾Amortized cost includes a cumulative \$860,000 write-down prior to 2010 for other-than-temporary impairment.

The following table presents the fair value of securities with gross unrealized losses at September 30, 2011, aggregated by category and length of time that individual securities have been in a continuous loss position (in thousands).

	Less than 12 months		Over 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<u>Securities Available for Sale:</u>						
U.S. government sponsored enterprise obligations	4,768	37	-	-	4,768	37
State and municipal obligations	1,520	20	106	1	1,626	21
Corporate obligations	-	-	764	290	764	290

Total temporarily
impaired securities \$