Comstock Homebuilding Companies, Inc.
Form 10-Q
August 13, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2010

¨ **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 1-32375

Comstock Homebuilding Companies, Inc.

(Exact name of registrant as specified in its charter)

Delaware		**20-1164345**
(State or other jurisdiction of incorporation or organization)		**(I.R.S. Employer Identification No.)**

11465 Sunset Hills Road

4th Floor

Reston, Virginia 20190

(703) 883-1700

(Address including zip code, and telephone number, including area code, of principal executive offices)

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 has submitted electronically and posted on its corporate website, if any, every interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ¨ 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.

Large Accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	x

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

As of August 13, 2010, 16,030,745 shares of the Class A common stock, par value $.01 per share, and 2,733,500 shares of Class B common stock, par value $0.01, of the Registrant were outstanding.

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COMSTOCK HOMEBUILDING COMPANIES, INC. AND SUBSIDIARIES

FORM 10-Q

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COMSTOCK HOMEBUILDING COMPANIES, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except per share data)

	June 30, 2010	December 31, 2009
ASSETS		
Cash and cash equivalents	$ 747	$ 1,085
Restricted cash	3,132	3,249
Real estate held for development and sale	42,146	70,890
Property, plant and equipment, net	64	144
Other assets	1,906	1,963
TOTAL ASSETS	$ 47,995	$ 77,331
LIABILITIES AND SHAREHOLDERS EQUITY		
Accounts payable and accrued liabilities	$ 3,214	$ 5,579
Notes payable - secured by real estate held for development and sale	24,668	50,530
Notes payable - due to affiliates, unsecured	5,054	12,743
Notes payable - unsecured	4,391	4,346
TOTAL LIABILITIES	37,327	73,198
Commitments and contingencies (Note 8)		
SHAREHOLDERS EQUITY		
Class A common stock, $0.01 par value, 77,266,500 shares authorized, 16,078,478 and 15,608,438 issued and outstanding, respectively	161	156
Class B common stock, $0.01 par value, 2,733,500 shares authorized, 2,733,500 issued and outstanding	27	27
Additional paid-in capital	165,747	157,418
Treasury stock, at cost (391,400 Class A common stock)	(2,439)	(2,439)
Accumulated deficit	(152,828)	(151,029)
TOTAL EQUITY	10,668	4,133
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 47,995	$ 77,331

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

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COMSTOCK HOMEBUILDING COMPANIES, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues				
Revenue - homebuilding	$ 5,919	$ 1,777	$ 11,613	$ 5,936
Revenue - other	509	829	3,955	1,626
Total revenue	6,428	2,606	15,568	7,562
Expenses				
Cost of sales - homebuilding	5,673	1,287	11,364	5,448
Cost of sales - other	413	257	3,285	573
Impairments and write-offs		15,351		15,351
Selling, general and administrative	1,405	2,228	2,861	4,267
Interest, real estate taxes and indirect costs related to inactive projects	821	1,310	1,670	2,592
Operating loss	(1,884)	(17,827)	(3,612)	(20,669)
Other (income) loss, net	(41)	87	(877)	(270)
Loss from continuing operations before income taxes	(1,843)	(17,914)	(2,735)	(20,399)
Income taxes expense				1
Loss from continuing operations	(1,843)	(17,914)	(2,735)	(20,400)
Discontinued operations:				
Loss from discontinued operations, net of taxes		(9,829)		(9,988)
Net loss	$ (1,843)	$ (27,743)	$ (2,735)	$ (30,388)
Basic loss per share				
Continuing operations	$ (.10)	$ (1.02)	$ (.15)	$ (1.16)
Discontinued operations		(.56)		(.57)
Net loss per share	$ (.10)	$ (1.58)	$ (.15)	$ (1.73)
Diluted loss per share				
Continuing operations	$ (.10)	$ (1.02)	$ (.15)	$ (1.16)
Discontinued operations		(.56)		(.57)
Net loss per share	$ (.10)	$ (1.58)	$ (.15)	$ (1.73)
Basic weighted average shares outstanding	18,365	17,554	18,231	17,554
Diluted weighted average shares outstanding	18,365	17,554	18,231	17,554

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

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COMSTOCK HOMEBUILDING COMPANIES, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN

SHAREHOLDERS EQUITY

(Amounts in thousands, except per share data)

	Class A		Class B		Additional paid-in capital	Treasury stock	Noncontrolling interest	Retained earnings (deficit)	Total
	Shares	**Amount**	**Shares**	**Amount**					
Balance at December 31, 2009	**15,609**	**$ 156**	**2,733**	**$ 27**	**$ 157,418**	**$ (2,439)**	**$**	**$ (151,029)**	**$ 4,133**
Cumulative effect of a change in accounting principle								936	936
Stock compensation and issuances	470	5			539				544
Stonehenge capital contribution					7,689				7,689
Warrants					101				101
Net loss								(2,735)	(2,735)
Balance at June 30, 2010	**16,079**	**$ 161**	**2,733**	**$ 27**	**$ 165,747**	**$ (2,439)**	**$**	**$ (152,828)**	**$ 10,668**
Balance at December 31, 2008	**15,609**	**$ 156**	**2,733**	**$ 27**	**$ 157,058**	**$ (2,439)**	**$ 224**	**$ (124,277)**	**$ 30,749**
Stock compensation and issuances					64				64
Net loss							(1)	(30,387)	(30,388)
Balance at June 30, 2009		**(14,014)**	**(12,210)**						
Common stock in treasury, at cost, 2,463,124, 2,203,549 and 2,126,450 shares at March 31, 2007, December 31, 2006, and March 31, 2006, respectively		**(52,035)**	**(45,832)**	**(43,193)**					
Total stockholders' equity		**407,580**	**403,817**	**385,754**					
Total liabilities and stockholders' equity	**$**	**5,100,781**	**$ 5,087,572**	**$ 4,885,851**					

See accompanying notes to unaudited interim consolidated financial statements.

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NBT Bancorp Inc. and Subsidiaries **Consolidated Statements of Income (unaudited)** *(In thousands, except per share data)*	Three months ended March 31, **2007**	2006
Interest, fee, and dividend income		
Interest and fees on loans and leases	**$ 59,808**	$ 52,833
Securities available for sale	**13,467**	11,877
Securities held to maturity	**1,444**	985
Other	**740**	611
Total interest, fee, and dividend income	**75,459**	66,306
Interest expense		
Deposits	**25,984**	17,225
Short-term borrowings	**3,092**	3,937
Long-term debt	**4,486**	4,142
Trust preferred debentures	**1,268**	883
Total interest expense	**34,830**	26,187
Net interest income	**40,629**	40,119
Provision for loan and lease losses	**2,096**	1,728
Net interest income after provision for loan and lease losses	**38,533**	38,391
Noninterest income		
Service charges on deposit accounts	**4,469**	4,219
Broker/ dealer and insurance revenue	**1,083**	908
Trust	**1,437**	1,358
Net securities losses	**(5)**	(934)
Bank owned life insurance	**434**	381
ATM fees	**1,896**	1,645
Retirement plan administration fees	**1,592**	1,231
Other	**1,784**	2,416
Total noninterest income	**12,690**	11,224
Noninterest expense		
Salaries and employee benefits	**15,964**	15,748
Occupancy	**3,169**	2,988
Equipment	**1,933**	2,156
Data processing and communications	**2,877**	2,702
Professional fees and outside services	**1,658**	1,832
Office supplies and postage	**1,296**	1,181
Amortization of intangible assets	**409**	323
Loan collection and other real estate owned	**377**	211
Other	**3,189**	3,331
Total noninterest expense	**30,872**	30,472
Income before income tax expense	**20,351**	19,143
Income tax expense	**6,219**	5,555
Net income	**$ 14,132**	$ 13,588
Earnings per share		
Basic	**$ 0.41**	$ 0.41
Diluted	**$ 0.41**	$ 0.40

See accompanying notes to unaudited interim consolidated financial statements.

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NBT Bancorp Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity (unaudited)

(in thousands, except share and per share data)	Common Stock	Additional Paid-in-Capital	Retained Earnings	Unvested Awards Stock	Accumulated Other Comprehensive loss	Treasury Stock	Total
Balance at December 31, 2005	$ 344	$ 219,157	$ 163,989	$ (457)	$ (6,477)	$ (42,613)	$ 333,943
Net income			13,588				13,588
Cash dividends - $0.19 per share			(6,550)				(6,550)
Purchase of 178,404 treasury shares						(4,055)	(4,055)
Issuance of 2,058,661 shares of common stock in connection With purchase business combination	21	48,604					48,625
Issuance of 237,278 incentive stock options in purchase transaction		1,955					1,955
Acquisition of 2,500 shares of company stock in purchase transaction						(55)	(55)
Issuance of 183,057 shares to employee benefit plans and Other stock plans, including tax benefit		234	(697)			3,788	3,325
Reclassification adjustment from the adoption of FAS123R				457		(457)	-
Stock-based compensation expense		756					756
Grant of 9,889 shares of restricted stock awards		(199)				199	-
Forfeit 2,625 shares of restricted stock		(45)					(45)
Other comprehensive loss					(5,733)		(5,733)
Balance at March 31, 2006	**$ 365**	**$ 270,462**	**$ 170,330**	**-**	**$ (12,210)**	**$ (43,193)**	**$ 385,754**
Balance at December 31, 2006	**$ 365**	**$ 271,528**	**$ 191,770**	**$ -**	**$ (14,014)**	**$ (45,832)**	**$ 403,817**
Net income			14,132				14,132

Cash dividends - $0.19 per share			(6,531)				(6,531)
Purchase of 373,967 treasury shares						(8,562)	(8,562)
Net issuance of 89,862 shares to employee benefit plans and other stock plans, including tax benefit		167	(423)			1,851	1,595
Stock-based compensation		839					839
Grant of 24,530 shares of restricted stock awards		(508)				508	-
Other comprehensive income					2,290		2,290
Balance at March 31, 2007	**$ 365**	**$ 272,026**	**$ 198,948**	**$ -**	**$ (11,724)**	**$ (52,035)**	**$ 407,580**

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NBT Bancorp Inc. and Subsidiaries **Consolidated Statements of Cash Flows (unaudited)** *(In thousands, except per share data)*	Three Months Ended March 31, **2007**	2006
Operating activities		
Net income	**$ 14,132**	$ 13,588
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan and lease losses	**2,096**	1,728
Depreciation and amortization of premises and equipment	**1,344**	1,590
Net accretion on securities	**19**	135
Amortization of intangible assets	**409**	323
Stock-based compensation	**839**	711
Bank owned life insurance income	**(434)**	(381)
Proceeds from sale of loans held for sale	**5,389**	8,837
Originations and purchases of loans held for sale	**(7,948)**	(6,957)
Net gains on sales of loans held for sale	**(43)**	(60)
Net security losses	**5**	934
Net gain on sales of other real estate owned	**(36)**	(60)
Net gain on sale of branch	**-**	(470)
Net (increase) decrease in other assets	**(2,135)**	6,025
Net increase (decrease) in other liabilities	**3,590**	(2,199)
Net cash provided by operating activities	**17,227**	23,744
Investing activities		
Net cash paid for sale of branch	**-**	(2,307)
Net cash used in CNB Bancorp, Inc. merger	**-**	(20,770)
Securities available for sale:		
Proceeds from maturities, calls, and principal paydowns	**56,182**	45,451
Proceeds from sales	**10,553**	42,292
Purchases	**(72,795)**	(108,488)
Securities held to maturity:		
Proceeds from maturities, calls, and principal paydowns	**8,094**	11,013
Purchases	**(17,581)**	(11,837)
Net decrease (increase) in loans	**17,313**	(38,054)
Net decrease in Federal Reserve and FHLB stock	**8,325**	2,297
Purchases of premises and equipment, net	**(146)**	(599)
Proceeds from sales of other real estate owned	**131**	210
Net cash provided by (used in) investing activities	**10,076**	(80,792)
Financing activities		
Net increase in deposits	**170,417**	130,856
Net decrease in short-term borrowings	**(140,987)**	(115,275)
Repayments of long-term debt	**(24,936)**	(12,020)
Proceeds from the issuance of trust preferred debentures	**-**	51,547
Tax benefit from exercise of stock options	**249**	313
Proceeds from the issuance of shares to employee benefit plans and other stock plans	**1,346**	3,012
Purchase of treasury stock	**(8,562)**	(4,055)
Cash dividends and payment for fractional shares	**(6,531)**	(6,550)
Net cash (used in) provided by financing activities	**(9,004)**	47,828
Net increase (decrease) in cash and cash equivalents	**18,299**	(9,220)
Cash and cash equivalents at beginning of year	**138,793**	142,488

Cash and cash equivalents at end of year	**$**	**157,092**	$	133,268

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Supplemental disclosure of cash flow information	Three Months Ended March 31,	
Cash paid during the period for:	**2007**	2006
Interest	**$ 33,783**	$ 24,820
Income taxes	**96**	449
Noncash investing activities:		
Loans transferred to OREO	**$ 338**	$ 164
Dispositions:		
Fair value of assets sold	**$ -**	$ 3,453
Fair value of liabilities transferred	**-**	5,760
Acquisitions:		
Fair value of assets acquired	**$ -**	$ 431,943
Goodwill and identifiable intangible assets recognized in purchase combination	**-**	65,572
Fair value of liabilities assumed	**-**	360,648
Fair value of equity issued in purchase combination	**-**	50,525

See accompanying notes to unaudited interim consolidated financial statements.

Consolidated Statements of Comprehensive Income (unaudited)	Three months ended March 31, **2007**	2006
(In thousands)		
Net income	**$ 14,132**	$ 13,588
Other comprehensive income (loss), net of tax		
Unrealized net holding gains (losses) arising during the year (pre-tax amounts of $3,806 and ($10,089))	**2,233**	(6,065)
Less reclassification adjustment for net losses related to securities available for sale included in net income (pre-tax amounts of $5 and $934)	**3**	561
Minimum pension liability adjustment	**-**	(229)
Changes in pension amounts previously recognized (pre-tax amounts of $90 and $0)	**54**	-
Total other comprehensive income (loss)	**2,290**	(5,733)
Comprehensive income	**$ 16,422**	$ 7,855

See accompanying notes to unaudited interim consolidated financial statements

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NBT BANCORP INC. and Subsidiary
NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2007

Note 1. Description of Business

NBT Bancorp Inc. (the Company or the Registrant) is a registered financial holding company incorporated in the state of Delaware in 1986, with its principal headquarters located in Norwich, New York. The Company is the parent holding company of NBT Bank, N.A. (the Bank), NBT Financial Services, Inc. (NBT Financial), Hathaway Agency, Inc., CNBF Capital Trust I, NBT Statutory Trust I and NBT Statutory Trust II. Through these subsidiaries, the Company operates as one segment focused on community banking operations. The Company's primary business consists of providing commercial banking and financial services to its customers in its market area. The principal assets of the Company are all of the outstanding shares of common stock of its direct subsidiaries, and its principal sources of revenue are the management fees and dividends it receives from the Bank and NBT Financial.

The Bank is a full service commercial bank formed in 1856, which provides a broad range of financial products to individuals, corporations and municipalities throughout the central and upstate New York and northeastern Pennsylvania market area.

Note 2. Basis of Presentation

The accompanying unaudited interim consolidated financial statements include the accounts of NBT Bancorp Inc. and its wholly owned subsidiaries, NBT Bank, N.A., NBT Financial Services, Inc., Hathaway Agency, Inc., CNBF Capital Trust I, NBT Statutory Trust I and NBT Statutory Trust II. Collectively, the Registrant and its subsidiaries are referred to herein as "the Company". All intercompany transactions have been eliminated in consolidation. Amounts in the prior period financial statements are reclassified whenever necessary to conform to current period presentation.

Note 3. New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 157 – *Fair Value Measurements* ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement does not require any new fair value measurements, but the application of this Statement may change current practice. Adoption is required as of the beginning of the first fiscal year that begins after November 15, 2007. Early application of this Standard is encouraged. The Company is assessing the effect that SFAS 157 will have on our consolidated financial position, results of operations and cash flows.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Finanical Assets and Financial Liabilities* ("SFAS 159"). SFAS 159 allows entities to voluntarily choose, at election dates, to measure many financial assets and financial liabilities (as well as certain nonfinancial instruments that are similar to financial instruments) at fair value (the "fair value option"). The election is made on an instrument-by-instrument basis and is irrevocable. If the fair value option is elected for an instrument, the Statement specifies that all subsequent changes in fair value for that instrument shall be reported in earnings. The Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Earlier adoption of the Statement is permitted as of the beginning of an entity's fiscal year, provided the choice to early adopt is made within 120 days of the beginning of the fiscal year of adoption and the entity has not yet issued financial statements for any interim period of that fiscal year. In addition, in order to early adopt SFAS 159, an entity must also adopt all of the requirements of SFAS 157 (see above). The Company is not adopting SFAS 159 early.

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Note 4. Business Combination

On February 10, 2006, the Company completed the acquisition through merger of CNB Bancorp, Inc. ("CNB"). CNB was a bank holding company for City National Bank and Trust Company ("CNB Bank") and Hathaway Agency, Inc. ("Hathaway"), headquartered in Gloversville, NY. CNB Bank conducted business from nine community bank offices in four upstate New York counties—Fulton, Hamilton, Montgomery and Saratoga. The stockholders of CNB received approximately $39 million in cash and 2,058,661 shares of NBT common stock. The aggregate transaction value was approximately $89.0 million. The transaction was accounted for under the purchase method of accounting. CNB had total assets of $399.0 million, loans of $197.6 million, deposits of $335.0 million and shareholders equity of $40.1 million. As part of the merger, the Company acquired approximately $65.6 million in goodwill and identifiable intangibles. CNB was merged with and into the Company, CNB Bank was merged with and into NBT Bank and Hathaway became a direct subsidiary of the Company. The results of operations are included in the consolidated financial statements from the date of acquisition, February 10, 2006.

Note 5. Use of Estimates

Preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period, as well as the disclosures provided. Actual results could differ from those estimates. Estimates associated with the allowance for loan losses, pension expense, fair values of financial instruments and status of contingencies are particularly susceptible to material change in the near term.

The allowance for loan and lease losses is the amount which, in the opinion of management, is necessary to absorb probable losses inherent in the loan and lease portfolio. The allowance is determined based upon numerous considerations, including local economic conditions, the growth and composition of the loan portfolio with respect to the mix between the various types of loans and their related risk characteristics, a review of the value of collateral supporting the loans, comprehensive reviews of the loan portfolio by the independent loan review staff and management, as well as consideration of volume and trends of delinquencies, nonperforming loans, and loan charge-offs. As a result of the test of adequacy, required additions to the allowance for loan and lease losses are made periodically by charges to the provision for loan and lease losses.

The allowance for loan and lease losses related to impaired loans is based on discounted cash flows using the loan's initial effective interest rate or the fair value of the collateral for certain loans where repayment of the loan is expected to be provided solely by the underlying collateral (collateral dependent loans). The Company's impaired loans are generally collateral dependent. The Company considers the estimated cost to sell, on a discounted basis, when determining the fair value of collateral in the measurement of impairment if those costs are expected to reduce the cash flows available to repay or otherwise satisfy the loans.

Management believes that the allowance for loan and lease losses is adequate. While management uses available information to recognize loan and lease losses, future additions to the allowance for loan and lease losses may be necessary based on changes in economic conditions or changes in the values of properties securing loans in the process of foreclosure. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan and lease losses. Such agencies may require the Company to recognize additions to the allowance for loan and lease losses based on their judgments about information available to them at the time of their examination which may not be currently available to management.

Other real estate owned (OREO) consists of properties acquired through foreclosure or by acceptance of a deed in lieu of foreclosure. These assets are recorded at the lower of fair value of the asset acquired less estimated costs to sell or "cost" (defined as the fair value at initial foreclosure). At the time of foreclosure, or when foreclosure occurs in-substance, the excess, if any, of the loan over the fair value of the assets received, less estimated selling costs, is charged to the allowance for loan and lease losses and any subsequent valuation write-downs are charged to other expense. Operating costs associated with the properties are charged to expense as incurred. Gains on the sale of OREO are included in income when title has passed and the sale has met the minimum down payment requirements prescribed by Generally Accepted Accounting Principles ("GAAP").

Income taxes are accounted for under the asset and liability method. The Company files consolidated tax returns on the accrual basis. Deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Realization of deferred tax assets is dependent upon the generation of future taxable income or the existence of sufficient taxable income within the available carryback period. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. Based on available evidence, gross deferred tax assets will ultimately be realized and a valuation allowance was not deemed necessary at March 31, 2007 and 2006, or December 31, 2006. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

Note 6. Commitments and Contingencies

The Company is a party to financial instruments in the normal course of business to meet financing needs of its customers and to reduce its own exposure to fluctuating interest rates. These financial instruments include commitments to extend credit, unused lines of credit, and standby letters of credit. Exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to make loans and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policy to make such commitments as it uses for on-balance-sheet items. Commitments to extend credit and unused lines of credit totaled $534.5 million at March 31, 2007 and $536.3 million at December 31, 2006. Since commitments to extend credit and unused lines of credit may expire without being fully drawn upon, this amount does not necessarily represent future cash commitments. Collateral obtained upon exercise of the commitment is determined using management's credit evaluation of the borrower and may include accounts receivable, inventory, property, land and other items.

The Company guarantees the obligations or performance of customers by issuing stand-by letters of credit to third parties. These stand-by letters of credit are frequently issued in support of third party debt, such as corporate debt issuances, industrial revenue bonds, and municipal securities. The risk involved in issuing stand-by letters of credit is essentially the same as the credit risk involved in extending loan facilities to customers, and they are subject to the same credit origination, portfolio maintenance and management procedures in effect to monitor other credit and off-balance sheet products. Typically, these instruments have terms of five years or less and expire unused; therefore, the total amounts do not necessarily represent future cash requirements. Standby letters of credit totaled $27.9 million at March 31, 2007 and $30.8 million at December 31, 2006. As of March 31, 2007, the fair value of standby letters of credit was not material to the Company's consolidated financial statements.

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Note 7. Earnings per share

Basic earnings per share excludes dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity (such as the Company's dilutive stock options).

The following is a reconciliation of basic and diluted earnings per share for the periods presented in the consolidated statements of income.

Three months ended March 31,	**2007**	2006
(in thousands, except per share data)		
Basic EPS:		
Weighted average common shares outstanding	**34,176**	33,422
Net income available to common shareholders	**$ 14,132**	$ 13,588
Basic EPS	**$ 0.41**	$ 0.41
Diluted EPS:		
Weighted average common shares outstanding	**34,176**	33,422
Dilutive effect of common stock options and restricted stock	**281**	324
Weighted average common shares and common share equivalents	**34,457**	33,746
Net income available to common shareholders	**$ 14,132**	$ 13,588
Diluted EPS	**$ 0.41**	$ 0.40

There were 272,565 stock options for the quarter ended March 31, 2007 and 375,211 stock options for the quarter ended March 31, 2006 that were not considered in the calculation of diluted earnings per share since the stock options' exercise price was greater than the average market price during these periods.

Note 8. Defined Benefit Postretirement Plans

The Company has a qualified, noncontributory, defined benefit pension plan covering substantially all of its employees at December 31, 2006. Benefits paid from the plan are based on age, years of service, compensation, social security benefits, and are determined in accordance with defined formulas. The Company's policy is to fund the pension plan in accordance with ERISA standards. Assets of the plan are invested in publicly traded stocks and bonds. Prior to January 1, 2000, the Company's plan was a traditional defined benefit plan based on final average compensation. On January 1, 2000, the plan was converted to a cash balance plan with grandfathering provisions for existing participants.

In addition to the pension plan, the Company also provides supplemental employee retirement plans to certain current and former executives. These supplemental employee retirement plans and the defined benefit pension plan are collectively referred to herein as "Pension Benefits".

Also, the Company provides certain health care benefits for retired employees. Benefits are accrued over the employees' active service period. Only employees that were employed by NBT Bank on or before January 1, 2000 are eligible to receive postretirement health care benefits. The plan is contributory for participating retirees, requiring participants to absorb certain deductibles and coinsurance amounts with contributions adjusted annually to reflect cost sharing provisions and benefit limitations called for in the plan. Employees become eligible for these benefits if they reach normal retirement age while working for the Company. The Company funds the cost of postretirement health

care as benefits are paid. The Company elected to recognize the transition obligation on a delayed basis over twenty years. These postretirement benefits are referred to herein as “Other Benefits”.

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The Components of pension expense and postretirement expense are set forth below (in thousands):

	Pension Benefits Three months ended March 31,		Other Benefits Three months ended March 31,	
Components of net periodic benefit cost:	**2007**	**2006**	**2007**	**2006**
Service Cost	$ 526	$ 517	$ 6	$ 1
Interest Cost	740	555	54	51
Expected return on plan assets	(1,343)	(905)	-	-
Net amortization	105	182	(15)	(24)
Total	$ 28	$ 349	$ 45	$ 28

The Company is not required to make contributions to the Plan in the remainder of 2007. The Company recorded approximately $54,000, net of tax, as amortization of previously recognized pension amounts in Accumulated Other Comprehensive Income.

Note 9. Trust Preferred Debentures

CNBF Capital Trust I is a Delaware statutory business trust formed in 1999, for the purpose of issuing $18 million in trust preferred securities and lending the proceeds to the Company. NBT Statutory Trust I is a Delaware statutory business trust formed in 2005, for the purpose of issuing $5 million in trust preferred securities and lending the proceeds to the Company. NBT Statutory Trust II is a Delaware statutory business trust formed in 2006, for the purpose of issuing $50 million in trust preferred securities and lending the proceeds to the Company to provide funding for the acquisition of CNB Bancorp, Inc. These three statutory business trusts are collectively referred herein as “the Trusts”. The Company guarantees, on a limited basis, payments of distributions on the trust preferred securities and payments on redemption of the trust preferred securities. The Trusts are variable interest entities (VIEs) for which the Company is not the primary beneficiary, as defined in Financial Accounting Standards Board Interpretation (“FIN”) No. 46 “Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51 (Revised December 2003) (FIN 46R).” In accordance with FIN 46R, which was implemented in the first quarter of 2004, the accounts of the Trusts are not included in the Company’s consolidated financial statements.

As of March 31, 2007, the Trusts had the following issues of trust preferred debentures, all held by the Trusts, outstanding (dollars in thousands):

Description	Issuance Date	Trust Preferred Securities Outstanding	Interest Rate	Trust Preferred Debt Owed To Trust	Final Maturity date
CNBF Capital Trust I	August-99	18,000	3-month LIBOR plus 2.75%	18,720	August-29
NBT Statutory Trust I	November-05	5,000	6.30% Fixed	5,155	December-35
NBT Statutory Trust II	February-06	50,000	6.195% Fixed	51,547	March-36

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The Company owns all of the common stock of the three business trusts, which have issued trust preferred securities in conjunction with the Company issuing trust preferred debentures to the Trusts. The terms of the trust preferred debentures are substantially the same as the terms of the trust preferred securities. In February 2005, the Federal Reserve Board issued a final rule that allows the continued inclusion of trust preferred securities in the Tier 1 capital of bank holding companies. The Board's final rule limits the aggregate amount of restricted core capital elements (which includes trust preferred securities, among other things) that may be included in the Tier 1 capital of most bank holding companies to 25% of all core capital elements, including restricted core capital elements, net of goodwill less any associated deferred tax liability. Large, internationally active bank holding companies (as defined) are subject to a 15% limitation. Amounts of restricted core capital elements in excess of these limits generally may be included in Tier 2 capital. The final rule provides a five-year transition period, ending March 31, 2009, for application of the quantitative limits. The Company does not expect that the quantitative limits will preclude it from including the trust preferred securities in Tier 1 capital. However, the trust preferred securities could be redeemed without penalty if they were no longer permitted to be included in Tier 1 capital.

Note 10. Income Taxes

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48"), on January 1, 2007. As a result of the implementation of FIN 48, the Company was not required to recognize any change in the liability for unrecognized tax benefits. The total unrecognized tax benefits upon adoption were approximately $2.6 million. Included in this amount is $1.2 million which would impact the effective rate if recognized or reversed and $0.4 million which would impact goodwill.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, New York State, Pennsylvania and certain other states. The Company is currently under examination by the Internal Revenue Service for tax years 2003 and 2004. All prior year federal returns are closed under the statute of limitations. The Company is also currently under examination by New York State for tax years 2000 through 2004. It is likely that the examination phase of some of these audits will conclude in 2007, and it is reasonably possible that a reduction in the unrecognized tax benefits may occur; however, quantification of an estimated range cannot be made at this time.

The Company's policy is to accrue interest and penalties as part of income tax expense. As of the date of adoption of FIN 48, the Company had accrued $0.5 million of interest. Interest accrued as of March 31, 2007 is $0.6 million.

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NBT BANCORP INC. and Subsidiaries
Item 2 --MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The purpose of this discussion and analysis is to provide the reader with a concise description of the financial condition and results of operations of NBT Bancorp Inc. (Bancorp) and its wholly owned subsidiaries, NBT Bank, N.A. (the Bank), NBT Financial Services, Inc. (NBT Financial), Hathaway Agency, Inc., CNBF Capital Trust I, NBT Statutory Trust I and NBT Statutory Trust II. (collectively referred to herein as the Company). This discussion will focus on Results of Operations, Financial Position, Capital Resources and Asset/Liability Management. Reference should be made to the Company's consolidated financial statements and footnotes thereto included in this Form 10-Q as well as to the Company's 2006 Form 10-K for an understanding of the following discussion and analysis.

FORWARD LOOKING STATEMENTS

Certain statements in this filing and future filings by the Company with the Securities and Exchange Commission, in the Company’s press releases or other public or shareholder communications, contain forward-looking statements, as defined in the Private Securities Litigation Reform Act. These statements may be identified by the use of phrases such as “anticipate,” “believe,” “expect,” “forecasts,” “projects,” or other similar terms.   There are a number of factors, many which are beyond the Company’s control that could cause actual results to differ materially from those contemplated by the forward looking statements. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, among others, the following possibilities: (1) competitive pressures among depository and other financial institutions may increase significantly; (2) revenues may be lower than expected; (3) changes in the interest rate environment may effect interest margins; (4) general economic conditions, either nationally or regionally, may be less favorable than expected, resulting in, among other things, a deterioration in credit quality and/or a reduced demand for credit; (5) legislative or regulatory changes, including changes in accounting standards or tax laws, may adversely affect the businesses in which the Company is engaged; (6) competitors may have greater financial resources and develop products that enable such competitors to compete more successfully than the Company; (7) adverse changes may occur in the securities markets or with respect to inflation; (8) acts of war or terrorism; (9) the costs and effects of litigation and of unexpected or adverse outcomes in such litigation; (10) internal control failures; and (11) the Company’s success in managing the risks involved in the foregoing.

The Company wishes to caution readers not to place undue reliance on any forward-looking statements, which speak only as of the date made, and to advise readers that various factors, including those described above and other factors discussed in the Company’s annual and quarterly reports previously filed with the Securities and Exchange Commission, could affect the Company’s financial performance and could cause the Company’s actual results or circumstances for future periods to differ materially from those anticipated or projected.

Unless required by law, the Company does not undertake, and specifically disclaims any obligations to publicly release the result of any revisions that may be made to any forward-looking statements to reflect statements to the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

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Critical Accounting Policies

Management of the Company considers the accounting policy relating to the allowance for loan and lease losses to be a critical accounting policy given the uncertainty in evaluating the level of the allowance required to cover credit losses inherent in the loan and lease portfolio and the material effect that such judgments can have on the results of operations. While management's current evaluation of the allowance for loan and lease losses indicates that the allowance is adequate, under adversely different conditions or assumptions, the allowance would need to be increased. For example, if historical loan and lease loss experience significantly worsened or if current economic conditions significantly deteriorated, additional provisions for loan and lease losses would be required to increase the allowance. In addition, the assumptions and estimates used in the internal reviews of the Company's nonperforming loans and potential problem loans has a significant impact on the overall analysis of the adequacy of the allowance for loan and lease losses. While management has concluded that the current evaluation of collateral values is reasonable under the circumstances, if collateral evaluations were significantly lowered, the Company's allowance for loan and lease policy would also require additional provisions for loan and lease losses.

Management of the Company considers the accounting policy relating to pension accounting to be a critical accounting policy. Management is required to make various assumptions in valuing its pension assets and liabilities. These assumptions include the expected rate of return on plan assets, the discount rate, and the rate of increase in future compensation levels. Changes to these assumptions could impact earnings in future periods. The Company takes into account the plan asset mix, funding obligations, and expert opinions in determining the various rates used to estimate pension expense. The Company also considers the Moody's AA and AAA corporate bond yields and other market interest rates in setting the appropriate discount rate. In addition, the Company reviews expected inflationary and merit increases to compensation in determining the rate of increase in future compensation levels.

Overview

The Company earned net income of $14.1 million ($0.41 diluted earnings per share) for the three months ended March 31, 2007 compared to net income of $13.6 million ($0.40 diluted earnings per share) for the three months ended March 31, 2006. The increase in net income from 2006 to 2007 was primarily the result of increases in net interest income of $0.5 million and noninterest income of $1.5 million. These increases were partially offset by increases in total noninterest expense of $0.4 million, income tax expense of $0.7 million, and provision for loan and lease losses of $0.4 million. The increase in net interest income resulted primarily from 8% growth in average loans during the three months ended March 31, 2007 compared to the same period in 2006. Included in noninterest income for the three months ended March 31, 2006 were $0.9 million in net losses from investment securities sales. Excluding the effect of these securities transactions in 2006, noninterest income increased $0.5 million or 4.4% compared to the same period in 2006. The increase in noninterest income resulted from increases in service charges on deposit accounts, ATM and debit card fees, retirement plan administration fees, trust administration fees, broker/dealer and insurance revenue, and bank owned life insurance income. The increase in total noninterest expense was due primarily to increases in salaries and employee benefits, office supplies and postage, occupancy expense, amortization of intangible assets, data processing and communications, and loan collection and other real estate owned expenses.

Table 1 depicts several annualized measurements of performance using GAAP net income. Returns on average assets and equity measure how effectively an entity utilizes its total resources and capital, respectively. Net interest margin, which is the net federal taxable equivalent (FTE) interest income divided by average earning assets, is a measure of an entity's ability to utilize its earning assets in relation to the cost of funding. Interest income for tax-exempt securities and loans is adjusted to a taxable equivalent basis using the statutory Federal income tax rate of 35%.

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Table 1 - Performance Measures

2007	**First Quarter**
Return on average assets (ROAA)	1.13%
Return on average equity (ROAE)	14.06%
Net Interest Margin	3.63%
2006	
Return on average assets (ROAA)	1.18%
Return on average equity (ROAE)	15.11%
Net Interest Margin	3.86%

Net Interest Income

Net interest income is the difference between interest income on earning assets, primarily loans and securities, and interest expense on interest-bearing liabilities, primarily deposits and borrowings. Net interest income is affected by the interest rate spread, the difference between the yield on earning assets and cost of interest-bearing liabilities, as well as the volumes of such assets and liabilities. Net interest income is one of the major determining factors in a financial institution's performance as it is the principal source of earnings. Table 2 represents an analysis of net interest income on a federal taxable equivalent basis.

Federal taxable equivalent (FTE) net interest income increased $0.8 million during the three months ended March 31, 2007, compared to the same period of 2006. The increase in FTE net interest income resulted primarily from 8.3% growth in average earning assets. The Company's interest rate spread declined 31 bp during the three months ended March 31, 2007 compared to the same period in 2006. The yield on earning assets for the period increased 32 bp, to 6.63% for the three months ended March 31, 2007 from 6.31% for the same period in 2006. Meanwhile, the rate paid on interest-bearing liabilities increased 63 bp, to 3.54% for the three months ended March 31, 2007 from 2.91% for the same period in 2006.

For the quarter ended March 31, 2007, total interest expense increased $8.6 million, primarily the result of the 50 bp increase in the Federal Funds target rate since March 31, 2006, which impacts the Company's short-term borrowing, money market account and time deposit rates. Additionally, average interest-bearing liabilities increased $335.4 million for the three months ended March 31, 2007 when compared to the same period in 2006, principally from strong organic deposit growth as well as deposits assumed from the CNB transaction. Total average interest-bearing deposits increased $435.5 million for the three months ended March 31, 2007 when compared to the same period in 2006. The rate paid on average interest-bearing deposits increased 76 bp from 2.49% for the three months ended March 31, 2006 to 3.25% for the same period in 2007. The increase in average interest-bearing deposits resulted from organic deposit growth as well as the previously mentioned deposits assumed from the CNB transaction, which increased average interest bearing deposits approximately $127.6 million for the three months ended March 31, 2007 as compared to March 31, 2006. For the quarter ended March 31, 2007, the Company experienced a shift in its deposit mix from savings and NOW accounts to money market and time deposit accounts, as interest sensitive customers shifted funds into higher paying interest bearing accounts. Savings and NOW accounts collectively decreased approximately $44.0 million and money market and time deposit accounts collectively increased approximately $479.4 million (time deposits was the primary driver of the increase). If short-term rates continue to rise, the Company anticipates that this trend will continue placing greater pressure on the net interest margin.

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Total average borrowings, including trust preferred debentures, decreased $100.0 million for the three months ended March 31, 2007 compared with the same period in 2006. Average short-term borrowings decreased by $106.3 million, from $371.6 million for the three months ended March 31, 2006 to $265.3 million for the three months ended March 31, 2007. Despite this 28.6% decrease, interest expense from short-term borrowings only decreased $0.8 million, or 21.5%. The rate paid on short-term borrowings increased from 4.30% for the three months ended March 31, 2006 to 4.73% for the same period in 2007. Average trust preferred debentures increased $21.8 million for the three months ended March 31, 2007, compared with the same period in 2006, primarily from the issuance of $51.5 million in trust preferred debentures in February 2006 to fund the cash portion of the CNB transaction and to provide regulatory capital. The rate paid on trust preferred debentures increased to 6.82% for the three months ended March 31, 2007, compared with 6.68% for the same period in 2006, driven primarily by $51.5 million in trust preferred debentures issued in February 2006 with a fixed rate of 6.195% and $18.7 million in trust preferred debentures that reprice quarterly at 3-month LIBOR plus 275 bp.

Another important performance measurement of net interest income is the net interest margin. Despite a 31 bp decrease in the Company's net interest spread, the net interest margin only declined by 23 bp to 3.63% for the three months ended Marc