

COMMUNITY BANK SYSTEM INC
Form 10-Q
November 07, 2007

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

FORM 10-Q

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

For the quarterly period ended September 30, 2007

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 001-13695

COMMUNITY BANK SYSTEM, INC.

(Exact name of registrant as specified in its charter)

Delaware

16-1213679

(State or other jurisdiction of incorporation or organization)

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

5790 Widewaters Parkway, DeWitt, New York

13214-1883

(Address of principal executive offices)

(Zip Code)

(315) 445-2282

(Registrant's telephone number, including area code)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.
29,673,827 shares of Common Stock, \$1.00 par value, were outstanding on October 31, 2007.

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Part I. Financial Information**Item 1. Financial Statements**
COMMUNITY BANK SYSTEM, INC.
CONSOLIDATED STATEMENTS OF CONDITION
(In Thousands, Except Share Data)

	(Unaudited) September 30, 2007	December 31, 2006
Cash and cash equivalents	\$ 205,224	\$ 232,032
Available-for-sale investment securities, at fair value	1,297,124	1,083,412
Held-to-maturity investment securities (fair value of \$134,377 and \$142,694, respectively)	136,806	145,859
Total investment securities	1,433,930	1,229,271
Loans	2,791,910	2,701,558
Allowance for loan losses	(36,447)	(36,313)
Net loans	2,755,463	2,665,245
Core deposit intangibles, net	21,819	24,665
Goodwill	233,279	220,290
Other intangibles, net	1,668	1,181
Intangible assets, net	256,766	246,136
Premises and equipment, net	69,931	66,199
Accrued interest receivable	26,799	26,797
Other assets	44,754	32,117
Total assets	\$ 4,792,867	\$ 4,497,797
Liabilities:		
Noninterest-bearing deposits	\$ 607,756	\$ 578,951
Interest-bearing deposits	2,696,848	2,589,348
Total deposits	3,304,604	3,168,299
Borrowings	821,343	647,481
Subordinated debt held by unconsolidated subsidiary trusts	127,123	158,014
Accrued interest and other liabilities	71,455	62,475
Total liabilities	4,324,525	4,036,269

Commitment and contingencies (See Note I)

Shareholders' equity:

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(Unaudited)
September 30,
2007 December 31,
2006

Preferred stock \$1.00 par value, 500,000 shares authorized, 0 shares issued	—	—
Common stock, \$1.00 par value, 50,000,000 shares authorized; 32,951,707 and 32,773,320 shares issued in 2007 and 2006, respectively	32,952	32,773
Additional paid-in capital	207,100	203,197
Retained earnings	304,673	291,871
Accumulated other comprehensive income	(4,444)	(4,697)
Treasury stock, at cost (3,279,811 and 2,753,161 shares, respectively)	(71,939)	(61,616)
Total shareholders' equity	468,342	461,528
Total liabilities and shareholders' equity	\$ 4,792,867	\$ 4,497,797

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

COMMUNITY BANK SYSTEM, INC.
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(In Thousands, Except Per-Share Data)

	Three Months Ended September 30,		Nine months Ended September 30,	
	2007	2006	2007	2006
Interest income:				
Interest and fees on loans	\$ 47,821	\$ 43,482	\$ 138,846	\$ 121,570
Interest and dividends on taxable investments	12,546	10,033	35,488	31,407
Interest and dividends on nontaxable investments	5,239	5,646	16,086	17,324
Total interest income	65,606	59,161	190,420	170,301
Interest expense:				
Interest on deposits	20,291	16,357	58,503	43,998
Interest on borrowings	8,568	7,075	23,461	19,593
Interest on subordinated debt held by unconsolidated subsidiary trusts	2,467	1,937	7,471	5,624
Total interest expense	31,326	25,369	89,435	69,215
Net interest income	34,280	33,792	100,985	101,086
Less: provision for loan losses	510	1,300	1,124	5,175
Net interest income after provision for loan losses	33,770	32,492	99,861	95,911
Noninterest income:				
Deposit service fees	8,382	7,329	23,184	21,001
Other banking services	1,512	1,329	2,607	2,166
Benefit plan administration, consulting and actuarial fees	5,509	3,271	14,248	9,807
Trust, investment and asset management fees	2,185	1,815	6,054	5,631
Loss on sales of investment securities	(16)	—	(24)	—
Total noninterest income	17,572	13,744	46,069	38,605
Operating expenses:				
Salaries and employee benefits	19,099	16,741	55,771	49,948
Occupancy and equipment	4,884	4,350	14,109	13,557
Data processing and communications	4,240	3,264	11,613	9,747
Amortization of intangible assets	1,629	1,520	4,725	4,502
Legal and professional fees	1,365	1,119	3,606	3,510
Office supplies and postage	1,168	1,004	3,222	—