

COMMUNITY BANK SYSTEM INC  
Form 10-Q  
August 08, 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 June 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.

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29,804,190 shares of Common Stock, \$1.00 par value, were outstanding on July 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) June 30, 2007	December 31, 2006
Cash and cash equivalents	\$ 242,410	\$ 232,032
Available-for-sale investment securities, at fair value	1,082,937	1,083,412
Held-to-maturity investment securities (fair value of \$131,677 and \$142,694, respectively)	136,423	145,859
<b>Total investment securities</b>	<b>1,219,360</b>	<b>1,229,271</b>
Loans	2,767,176	2,701,558
Allowance for loan losses	(36,690)	(36,313)
<b>Net loans</b>	<b>2,730,486</b>	<b>2,665,245</b>
Core deposit intangibles, net	23,124	24,665
Goodwill	233,219	220,290
Other intangibles, net	1,767	1,181
<b>Intangible assets, net</b>	<b>258,110</b>	<b>246,136</b>
Premises and equipment, net	69,639	66,199
Accrued interest receivable	24,859	26,797
Other assets	38,285	32,117
<b>Total assets</b>	<b>\$ 4,583,149</b>	<b>\$ 4,497,797</b>
Liabilities:		
Noninterest bearing deposits	\$ 588,132	\$ 578,951
Interest bearing deposits	2,776,445	2,589,348
<b>Total deposits</b>	<b>3,364,577</b>	<b>3,168,299</b>
Borrowings	577,134	647,481
Subordinated debt held by unconsolidated subsidiary trusts	127,111	158,014
Accrued interest and other liabilities	54,703	62,475
<b>Total liabilities</b>	<b>4,123,525</b>	<b>4,036,269</b>
Commitment and contingencies (See Note I)		
Shareholders' equity:		
Preferred stock \$1.00 par value, 500,000 shares authorized, 0 shares issued	32,920	32,773

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(Unaudited)  
**June 30,**  
**2007**                      **December 31,**  
**2006**

Common stock, \$1.00 par value, 50,000,000 shares authorized; 32,920,155 and 32,773,320 shares issued in 2007 and 2006, respectively		
Additional paid-in capital	206,106	203,197
Retained earnings	299,883	291,871
Accumulated other comprehensive income	(11,610)	(4,697)
Treasury stock, at cost (3,046,961 and 2,753,161 shares, respectively)	(67,675)	(61,616)
<hr/>		
Total shareholders' equity	459,624	461,528
<hr/>		
<b>Total liabilities and shareholders' equity</b>	<b>\$ 4,583,149</b>	<b>\$ 4,497,797</b>

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 June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
<b>Interest income:</b>				
Interest and fees on loans	\$ 46,090	\$ 39,760	\$ 91,025	\$ 78,088
Interest and dividends on taxable investments	11,839	10,839	22,942	21,374
Interest and dividends on nontaxable investments	5,327	5,883	10,847	11,678
<b>Total interest income</b>	<b>63,256</b>	<b>56,482</b>	<b>124,814</b>	<b>111,140</b>
<b>Interest expense:</b>				
Interest on deposits	20,092	14,620	38,212	27,641
Interest on short-term borrowings	1,622	1,150	3,259	2,608
Interest on subordinated debt held by unconsolidated subsidiary trusts	2,438	1,872	5,004	3,687
Interest on long-term borrowings	5,766	5,231	11,634	9,910
<b>Total interest expense</b>	<b>29,918</b>	<b>22,873</b>	<b>58,109</b>	<b>43,846</b>
Net interest income	33,338	33,609	66,705	67,294
Less: provision for loan losses	414	1,725	614	3,875
<b>Net interest income after provision for loan losses</b>	<b>32,924</b>	<b>31,884</b>	<b>66,091</b>	<b>63,419</b>
<b>Noninterest income:</b>				
Deposit service fees	7,825	7,063	14,802	13,672
Other banking services	425	361	1,095	837
Benefit plan administration, consulting and actuarial fees	4,767	3,155	8,739	6,536
Trust, investment and asset management fees	2,009	1,766	3,869	3,816
Loss on sales of investment securities	(8)		(8)	
<b>Total noninterest income</b>	<b>15,018</b>	<b>12,345</b>	<b>28,497</b>	<b>24,861</b>
<b>Operating expenses:</b>				
Salaries and employee benefits	18,386	16,425	36,672	33,207
Occupancy and equipment	4,559	4,448	9,225	9,207
Data processing and communications	3,808	3,252	7,373	6,483
Amortization of intangible assets	1,581	1,489	3,096	2,982
Legal and professional fees	1,054	1,108	2,241	2,391
Office supplies and postage	1,008	1,083	2,054	2,059
Business development and marketing	1,538	1,164	2,488	1,894
Other	2,198	2,239	4,902	4,420
<b>Total operating expenses</b>	<b>34,132</b>	<b>31,208</b>	<b>68,051</b>	<b>62,643</b>

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	Three Months Ended June 30,		Six Months Ended June 30,	
Income before income taxes	13,810	13,021	26,537	25,637
Income taxes	3,451	3,137	6,522	6,291
<b>Net income</b>	<b>\$ 10,359</b>	<b>\$ 9,884</b>	<b>\$ 20,015</b>	<b>\$ 19,346</b>
<b>Basic earnings per share</b>	<b>\$ 0.34</b>	<b>\$ 0.33</b>	<b>\$ 0.66</b>	<b>\$ 0.65</b>
<b>Diluted earnings per share</b>	<b>\$ 0.34</b>	<b>\$ 0.33</b>	<b>\$ 0.66</b>	<b>\$ 0.64</b>
<b>Dividends declared per share</b>	<b>\$ 0.20</b>	<b>\$ 0.19</b>	<b>\$ 0.40</b>	<b>\$ 0.38</b>

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

**COMMUNITY BANK SYSTEM, INC.**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)**  
**Six Months Ended June 30, 2007**  
**(In Thousands, Except Share Data)**

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
	Shares Outstanding	Amount Issued					
Balance at December 31, 2006	30,020,159	\$ 32,773	\$ 203,197	\$ 291,871	(\$ 4,697)	(\$ 61,616)	\$ 461,528
Net income				20,015			20,015
Other comprehensive loss, net of tax					(6,913)		(6,913)
Dividends declared:							
Common, \$0.40 per share				(12,003)			(12,003)
Common stock issued under Stock plan, including tax benefits of \$250	146,835	147	1,700				1,902
Stock options earned			1,209				1,154
Treasury stock purchased	(293,800)					(6,059)	(6,059)
Balance at June 30, 2007	29,873,194	\$ 32,920	\$ 206,106	\$ 299,883	(\$ 11,610)	(\$ 67,675)	\$ 459,624

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



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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<hr/> Other comprehensive loss, before tax:				