

COMMUNITY BANK SYSTEM INC  
Form 10-Q  
November 09, 2011

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, 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: 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, 13214-1883  
New York  
(Address of principal executive offices) (Zip Code)

(315) 445-2282  
(Registrant's telephone number, including area code)

NONE

(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  No  .

Indicate by check mark whether the registrant has submitted electronically and posted to its corporate Web site, if any, every Interactive Data File required to be

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was submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant 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 .

(Do not check if a 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

36,846,681 shares of Common Stock, \$1.00 par value, were outstanding on October 31, 2011.

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## Part I. Financial Information

## Item 1. Financial Statements

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

	September 30, 2011	December 31, 2010
<b>Assets:</b>		
Cash and cash equivalents	\$425,877	\$211,837
Held-to-maturity investment securities (fair value of \$619,821 and \$625,789, respectively)	558,591	602,908
Available-for-sale investment securities (cost of \$1,379,911 and \$1,076,030, respectively)	1,457,788	1,085,963
Other securities, at cost	58,904	53,453
Loans held for sale, at fair value	167	3,952
Loans	3,476,469	3,026,363
Allowance for loan losses	(42,463)	(42,510)
Net loans	3,434,006	2,983,853
Core deposit intangibles, net	12,383	10,897
Goodwill	344,229	297,692
Other intangibles, net	3,616	3,125
Intangible assets, net	360,228	311,714
Premises and equipment, net	85,724	81,561
Accrued interest receivable	27,755	26,136
Other assets	94,814	83,129
<b>Total assets</b>	<b>\$6,503,854</b>	<b>\$5,444,506</b>
<b>Liabilities:</b>		
Noninterest-bearing deposits	\$887,009	\$741,166
Interest-bearing deposits	3,951,744	3,192,879
Total deposits	4,838,753	3,934,045
Borrowings	728,335	728,460
Subordinated debt held by unconsolidated subsidiary trusts	102,042	102,024
Accrued interest and other liabilities	79,091	72,719
Total liabilities	5,748,221	4,837,248
Commitments and contingencies (See Note J)		

Shareholders' equity:		
Preferred stock \$1.00 par value, 500,000 shares authorized, 0 shares issued	-	-
Common stock, \$1.00 par value, 50,000,000 shares authorized; 37,638,843 and		
34,131,289 shares issued, respectively	37,639	34,131
Additional paid-in capital	309,881	225,543
Retained earnings	402,426	374,700
Accumulated other comprehensive income (loss)	23,418	(9,340)
Treasury stock, at cost (810,327 and 812,346 shares, respectively)	(17,731)	(17,776)
Total shareholders' equity	755,633	607,258
Total liabilities and shareholders' equity	\$6,503,854	\$5,444,506

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,	
	2011	2010	2011	2010
<b>Interest income:</b>				
Interest and fees on loans	\$50,702	\$45,094	\$142,470	\$134,618
Interest and dividends on taxable investments	14,278	11,928	41,147	35,029
Interest and dividends on nontaxable investments	5,438	5,575	16,938	16,625
<b>Total interest income</b>	<b>70,418</b>	<b>62,597</b>	<b>200,555</b>	<b>186,272</b>
<b>Interest expense:</b>				
Interest on deposits	6,887	7,296	19,684	23,646
Interest on borrowings	7,466	7,468	22,146	22,617
Interest on subordinated debt held by unconsolidated subsidiary trusts	1,497	1,509	4,447	4,458
<b>Total interest expense</b>	<b>15,850</b>	<b>16,273</b>	<b>46,277</b>	<b>50,721</b>
<b>Net interest income</b>	<b>54,568</b>	<b>46,324</b>	<b>154,278</b>	<b>135,551</b>
Less: provision for loan losses	1,043	1,400	3,143	5,270
<b>Net interest income after provision for loan losses</b>	<b>53,525</b>	<b>44,924</b>	<b>151,135</b>	<b>130,281</b>
<b>Noninterest income:</b>				
Deposit service fees	11,134	11,180	31,307	33,036
Mortgage banking and other services	1,499	2,078	3,920	4,116
Benefit plan administration, consulting and actuarial fees	7,685	7,256	23,722	22,415
Wealth management services	2,904	2,400	7,866	7,442
Gain (loss) on investment securities & debt extinguishments, net	(6)	0	8	0
<b>Total noninterest income</b>	<b>23,216</b>	<b>22,914</b>	<b>66,823</b>	<b>67,009</b>
<b>Operating expenses:</b>				
Salaries and employee benefits	26,543	23,056	75,185	68,501
Occupancy and equipment	6,103	5,575	18,413	17,414
Data processing and communications	5,330	5,430	15,278	15,853
Amortization of intangible assets	1,161	1,277	3,251	4,985
Legal and professional fees	1,640	1,014	4,286	3,819
Office supplies and postage	1,300	1,382	3,873	3,942
Business development and marketing	1,096	1,250	4,534	3,995
Acquisition expenses and special charges	381	57	4,689	256
Other	4,539	5,311	13,026	14,000
<b>Total operating expenses</b>	<b>48,093</b>	<b>44,352</b>	<b>142,535</b>	<b>132,765</b>

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Income before income taxes	28,648	23,486	75,423	64,525
Income taxes	8,640	6,224	21,269	17,099
Net income	\$20,008	\$17,262	\$54,154	\$47,426
Basic earnings per share	\$0.54	\$0.52	\$1.52	\$1.43
Diluted earnings per share	\$0.54	\$0.51	\$1.50	\$1.42
Dividends declared per share	\$0.26	\$0.24	\$0.74	\$0.70

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



COMMUNITY BANK SYSTEM, INC.  
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)  
Nine months ended September 30, 2011  
(In Thousands, Except Share Data)

	Common Stock Shares Outstanding	Amount Issued	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income(Loss)	Treasury Stock	Total
Balance at December 31, 2010	33,318,943	\$34,131	\$225,543	\$374,700	(\$9,340)	(\$17,776)	\$607,258
Net income				54,154			54,154
Other comprehensive income, net of tax					32,758		32,758
Dividends declared: Common, \$0.74 per share				(26,428)			(26,428)
Common stock issued under Stock Plan, including tax benefits of \$355	156,772	155	2,073			45	2,273
Stock-based compensation			3,038				3,038
Stock issued for acquisition	3,352,801	3,353	79,227				82,580
Balance at September 30, 2011	36,828,516	\$37,639	\$309,881	\$402,426	\$23,418	(\$17,731)	\$755,633

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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Other comprehensive income, before tax:				
Change in pension liabilities	(\$18,157)	\$298	(\$17,808)	\$894
Change in unrealized loss on derivative instruments used in cash flow hedges	871	401	2,463	1,045
Unrealized gains on securities:				
Unrealized holding gains arising during period	39,642	7,920	68,043	28,972
Reclassification adjustment for gains/(losses) included in net income	6	0	(99)	0
Other comprehensive income, before tax:	22,362	8,619	52,599	30,911
Income tax expense related to other comprehensive income	(8,400)	(3,034)	(19,841)	(11,207)
Other comprehensive income, net of tax:	13,962	5,585	32,758	19,704
Net income	20,008	17,262	54,154	47,426
Comprehensive income	\$33,970	\$22,847	\$86,912	\$67,130

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

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

	Nine Months Ended September 30,	
	2011	2010
<b>Operating activities:</b>		
Net income	\$54,154	\$47,426
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	8,608	7,447
Amortization of intangible assets	3,251	4,985
Net (accretion) amortization of premiums & discounts on securities, loans and borrowings	(1,356)	1,957
Stock-based compensation	3,038	2,767
Provision for loan losses	3,143	5,270
Amortization of mortgage servicing rights	667	574
Income on bank-owned life insurance policies	(581)	(356)
Gain on investment securities and debt extinguishments, net	(8)	0
Net gain on sale of loans and other assets	(281)	(46)
Net change in loans held for sale	4,410	1,011
Change in other assets and liabilities	5,556	495
Net cash provided by operating activities	80,600	71,530
<b>Investing activities:</b>		
Proceeds from sales of available-for-sale investment securities	13,371	0
Proceeds from maturities of held-to-maturity investment securities	54,152	60,039
Proceeds from maturities of available-for-sale investment securities	151,997	116,889
Purchases of held-to-maturity investment securities	(7,424)	(323,745)
Purchases of available-for-sale investment securities	(176,188)	(109,227)
Sales of other securities	1,197	1,061
Purchases of other securities	(3,075)	(5)
Net decrease in loans	9,038	14,519
Cash received from acquisition, net of cash paid of \$20,704 and \$0	6,197	0
Purchases of premises and equipment	(6,895)	(11,497)
Net cash provided by (used in) investing activities	42,370	(251,966)
<b>Financing activities:</b>		
Net increase in deposits	133,154	